



**2011 Business Plan and Budget  
Final**

**Texas Reliability Entity, Inc.**

**Approved by:**

**Texas RE Board of Directors**

**June 30, 2010**

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## Introduction

| <b>TOTAL RESOURCES</b><br>(in whole dollars)  |              |              |        |        |
|---|--------------|--------------|--------|--------|
|   | 2011 Budget  | U.S.         | Canada | Mexico |
| Statutory FTEs                                | 49.0         |              |        |        |
| Non-statutory FTEs                            | 1.0          |              |        |        |
| <b>Total FTEs</b>                             | 50.0         |              |        |        |
| Statutory Expenses                            | \$ 9,517,049 |              |        |        |
| Non-Statutory Expenses                        | \$ 265,969   |              |        |        |
| <b>Total Expenses</b>                         | \$ 9,783,018 |              |        |        |
| Statutory Inc(Dec) in Fixed Assets            | \$ (153,085) |              |        |        |
| Non-Statutory Inc(Dec) in Fixed Assets        | \$ -         |              |        |        |
| <b>Total Inc(Dec) in Fixed Assets</b>         | \$ (153,085) |              |        |        |
| Statutory Working Capital Requirement *       | \$ 127,459   |              |        |        |
| Non-Statutory Working Capital Requirement **  | \$ -         |              |        |        |
| <b>Total Working Capital Requirement</b>      | \$ 127,459   |              |        |        |
| Total Statutory Funding Requirement           | \$ 9,491,423 |              |        |        |
| Total Non-Statutory Funding Requirement       | \$ 265,969   |              |        |        |
| <b>Total Funding Requirement</b>              | \$ 9,757,392 |              |        |        |
| <b>Texas RE Statutory Funding Assessments</b> | \$ 9,227,823 | \$ 9,227,823 |        |        |
| <b>Texas RE Non-Statutory Fees</b>            | \$ 265,969   | \$ 265,969   |        |        |
| NEL   | 308,277,759  | 308,277,759  |        |        |
| NEL%  | 100%         | 100%         |        |        |

\*Refer to Table B-1 on page 65 in Section B.

\*\*Refer to the Reserve Analysis on page 78 in Section C.

## Organizational Overview

Texas Reliability Entity, Inc. (Texas RE) is a Texas non-profit corporation that was formed to be the Regional Entity for the Electric Reliability Council of Texas (ERCOT) region and 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). Texas RE and North American Electric Reliability Corporation (NERC) have executed an Amended and Restated Delegation Agreement (Delegation Agreement) for the ERCOT region, and this Delegation Agreement was approved by the Federal Energy Regulatory Commission (FERC) on May 6, 2010. Amendments to the Delegation Agreement between NERC and Texas RE, extending the Delegation Agreement for a five (5)-year period beginning January 1, 2011, have been approved by the Texas RE board of directors and NERC board of trustees and were filed with FERC for approval on June 9, 2010.

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

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interconnected with any electric utilities operating outside of Texas. The ERCOT region includes approximately 200,000 square miles and 85% of Texas load.

In addition to performing statutory duties as a Regional Entity, Texas RE will also perform limited non-statutory duties. Texas RE does not anticipate performing the audits, investigations, or other monitoring or reporting of market participants' compliance with ERCOT Protocols and Operating Guides that it performed in 2010 and its predecessor Texas Regional Entity performed in previous years. Texas RE will, however need to respond to subpoenas and provide testimony and technical support to the PUCT regarding Texas RE's previous non-statutory compliance and reporting from the period in which Texas RE conducted these activities, during 2011.

## Membership and Governance

Texas RE has the following six membership sectors under its Bylaws:

- **System Coordination and Planning:** An entity that is registered with NERC as a Reliability Coordinator (RC), Balancing Authority (BA), Planning Authority (PA), Resource Planner (RP), or Interchange Authority (IA).
- **Transmission and Distribution:** An entity that is registered with NERC as a Transmission Owner (TO), Transmission Planner (TP), Transmission Service Provider (TSP), Distribution Provider (DP), and/or Transmission Operator (TOP), and is not a Cooperative or Municipal Utility.
- **Cooperative Utility:** An entity that is (a) a corporation organized under Chapter 161 of the Texas Utilities Code or a predecessor statute to Chapter 161 and operating under that chapter; or (b) a corporation organized as an electric cooperative in a state other than Texas that has obtained a certificate of authority to conduct affairs in the State of Texas; or (c) a cooperative association organized under Tex. Rev. Civ. Stat. 1396-50.01 or a predecessor to that statute and operating under that statute that is registered with NERC for at least one reliability function.
- **Municipal Utility:** An entity that owns or controls transmission or distribution facilities, owns or controls dispatchable generating facilities, or provides retail electric service and is a municipally owned utility as defined in PURA §11.003 and is registered with NERC for at least one reliability function.
- **Generation:** An entity that is registered with NERC as a Generator Owner (GO) or Generator Operator (GOP).
- **Load-Serving and Marketing:** An entity that is registered with NERC as a Load Serving Entity (LSE), a Purchasing-Selling Entity, or any newly defined NERC reliability function for demand response.

Membership in Texas RE is voluntary and open to any entity that is a user, owner, or operator in the ERCOT region BPS, who registers with Texas RE and complies with the Texas RE Bylaws requirements. Texas RE 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.

Texas RE is governed by a hybrid board of directors (Board), comprised of the following nine (9) directors:

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- The Texas RE President & Chief Executive Officer
  - Four (4) Independent Directors
  - Two (2) Member Directors (the Chair and Vice-Chair of the Member Representatives Committee)
  - Chair of the PUCT, as an ex officio non-voting member
  - Texas Public Counsel, from the Texas Office of Public Utility Counsel, as an ex officio non-voting member

The Board's primary role is to assure that Texas RE meets its requirements under the Bylaws and Delegation Agreement. The PUCT acts as the Hearing Body for contested matters under the Compliance Monitoring and Enforcement Program (CMEP). As the Hearing Body, the PUCT makes a recommendation to the Board, and the Board makes final compliance and enforcement decisions on contested cases. The Texas RE Board performs this role, rather than a board compliance committee as used by other Regional Entities, because the Texas RE Board is smaller and has only seven voting members.

Texas RE has two membership committees, the Member Representatives Committee and the Reliability Standards Committee. The Member Representatives Committee includes representatives from members in each of the six membership sectors and provides advice and recommendations to the Board on administrative, financial, reliability-related, or any other matters, except for standards development issues, through its elected Chair and Vice Chair, who serve as directors. The Reliability Standards Committee includes representatives from the six sectors described above, whether or not members of Texas RE and including any entity with a direct and material interest in the ERCOT region BPS, and manages and participates in the Regional Standards Development Process, coordinates the development of regional standards and variances with the development of national standards, and monitors, reviews, and comments on NERC (national) standards under development and standards interpretation requests.

### **Statutory Functional Scope**

In accordance with the Delegation Agreement and in compliance with the NERC Rules of Procedure (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 NERC ROP.
- Perform other delegation-related services on behalf of NERC, in furtherance of NERC's responsibilities as the Electric Reliability Organization (ERO) under the Federal Power Act (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.

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- Promote situation awareness and the security and protection of critical infrastructure.
  - Event Analysis and Reliability Improvement

## 2011 Key Assumptions

The NERC and Regional Entity business plans and budgets reflect a set of common assumptions developed jointly by NERC and the Regional Entities as part of the annual business plan and budget process located in Exhibit A of NERC's 2011 Business Plan and Budget. The significant assumptions underlying NERC and Regional Entity business plans and budgets include:

1. The international, industry-based Self Regulatory Organization (SRO) model continues to be used and no material changes to the SRO model impacting 2011 emerge from FERC's review of the Three-Year ERO Performance Assessment or its review of the proposed amendments to the Regional Entity delegation agreements.
2. The framework for delegation to Regional Entities is improved, as outlined in the proposed modifications to the Regional Entity delegation agreements, improving the efficiency, transparency, consistency, effectiveness, and quality of NERC and the Regional Entity working relationship, including the incorporation of metrics.
3. Cost pressures strain stakeholder participation in NERC and Regional Entity activities.
4. In order to enhance reliability and the overall effectiveness of the ERO, improvements are needed in standards development, implementation, education, and training.
5. Standards development activities will face increased demands, including but not limited to those supporting the Reliability Standards Development Plan, FERC Order 693 directives and the National Emergency Standards Development Process.
6. NERC and Regional Entities will continue to gather data and perform analysis regarding the bulk electric system, including but not limited to support key federal and industry initiatives.
7. NERC will need to make significant investments in 2011 to support the implementation of a situation awareness tool for FERC, NERC, Regional Entities, and stakeholders' needs, as well as to meet both near and long-term ERO technology requirements.
8. The number of events requiring review, analysis, and reporting will increase.
9. CIP activities will increase significantly on all fronts, including compliance and other activities; expectations are that resource requirements will be significantly impacted over the next three years as the full measure of the standards become auditable for all entities on all implementation tables, the TFE program is implemented and the increase in scope as a result of Order No. 706B.
10. NERC and the Regional Entities are expected to see increased compliance related resource demands.

## 2011 Goals and Key Deliverables

Texas RE's 2011 Business Plan and Budget is driven by the following goals:

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1. Improve reliability through rigorous monitoring and enforcement of compliance with mandatory standards, in accordance with the Delegation Agreement and the NERC ROP:
    - a. Maintain accurate registrations for responsible entities.
    - b. Monitor compliance of registered entities in the ERCOT region with mandatory reliability standards, in accordance with the Delegation Agreement and NERC ROP, 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 compliance with the mandatory reliability standards by registered entities in the ERCOT region, in accordance with the Delegation Agreement and NERC ROP while improving quality and timeliness.
    - e. Promote a strong culture of compliance, reliability improvement, and risk-based methods among registered entities in the ERCOT region.
    - f. Maintain a high degree of independence in all compliance and enforcement activities.
  2. Effectively communicate with NERC, other Regional Entities, regulators, and industry stakeholders as follows:
    - a. Continue to build and improve cooperative relationships with other Regional Entities, 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 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. Maintain clear mandatory standards focused on performance requirements essential to reliability
    - a. Participate in and encourage stakeholder engagement in the development of national standards, in support of NERC projects.
    - b. Propose and facilitate development of regional standards or variances that are needed to comply with NERC's three-year work plan, FERC directives, and to meet any emergent ERCOT region-wide reliability needs.
    - c. Identify key areas needing improvement and implement educational and other technical assistance programs to improve compliance in those areas based on compliance program results and system events.
  5. Continue to improve situation awareness and event analysis capabilities
    - a. Develop a situation awareness capability that meets the needs of FERC, NERC, Texas RE, and registered entities.
    - b. Improve timeliness of root cause analyses and lessons learned and strengthen overall reliability.
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6. Work with NERC to facilitate and support registered entities in complying with CIP reliability standards, and responding to cyber security alerts.
    - a. Texas RE will maintain compliance with all applicable provisions of the CIP standards, as they apply to Regional Entities.
  7. Efficiently adopt appropriate technology to increase efficiency and improve timeliness.
    - a. Facilitate the integration of ERO and Regional Entity information systems used for compliance and other applicable statutory functions.
  8. Maintain knowledgeable and skilled reliability personnel.
    - a. Actively support the training and education of reliability personnel within the ERCOT region, focusing on knowledge of reliability standards and recognizing and responding to system emergencies.
  9. Continuously improve.
    - a. Remain in good standing as a Regional Entity by addressing all applicable recommendations and directives from the 3-year ERO assessment, including stakeholder inputs, and audits by NERC and/or FERC.
    - b. Address any deficiencies or areas of improvement identified in the 2010 NERC conducted AUP audit of Texas RE.
  10. Identify key performance indicators and benchmarks for Texas RE operations.

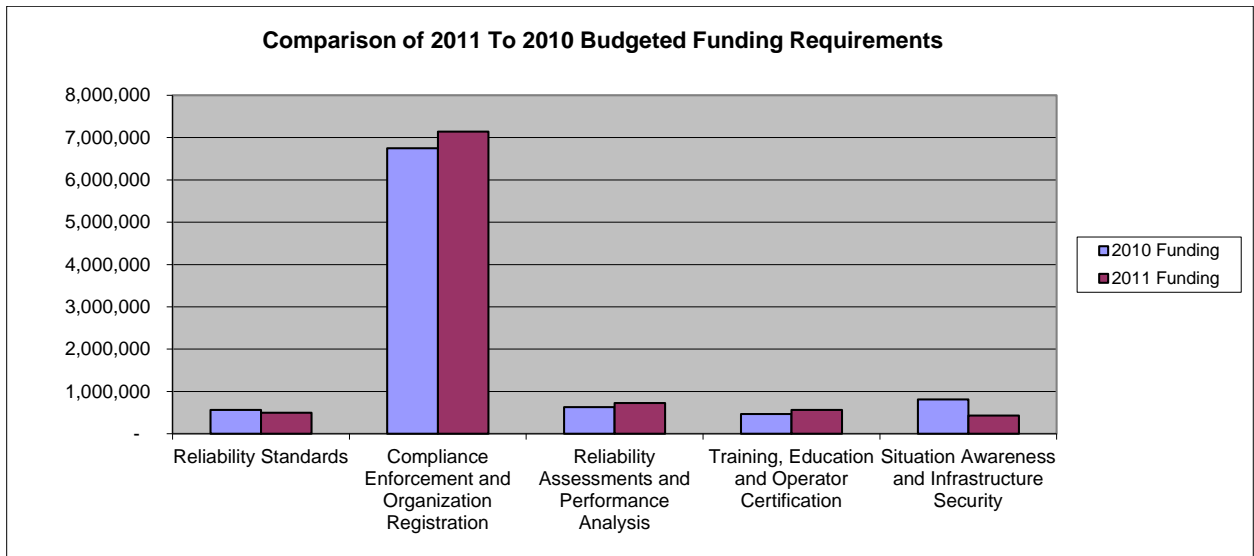
## 2011 Overview of Cost Impacts

Texas RE's statutory expenses (including capital expenses) are increasing approximately 1.6% or \$147K from statutory expenses of \$9,216K in 2010 to \$9,363K for statutory expenses (\$9,517K in operating expenses offset by -\$153K in net fixed assets) in 2011. Texas RE's statutory expenses (excluding capital and start up expenses) are increasing \$1,456K or 18.4% from 2010 to 2011. The cost increases are primarily attributed to the following cost impact items reflected below. All comparisons are to the Texas RE Amended 2010 Budget, approved by the commission on May 6, 2010.

1. Texas RE will not be affiliated with nor receive any administrative services from Electric Reliability Council of Texas, Inc. (ERCOT ISO) or any other registered entity during any portion of 2011.
2. Texas RE personnel costs will increase by \$1,397K in 2011, because Texas RE proposes to add 9.5 statutory FTEs. A summary of these changes is as follows:
  - a. Additions:
    - 693 Audits – 1.5 FTEs
    - CIP Audits – 2.5 FTEs
    - Organization Registration – 1.0 FTEs
    - Compliance Monitoring (excluding Audits) – 1.38 FTEs
    - Enforcement – 1.0 FTEs
    - Reliability Assessments and Performance Analysis – 0.74 FTEs
    - Training – 0.87 FTEs
    - Administrative Services – 1.6 FTEs

- b. Reductions:
- Reliability Standards – 0.09 FTEs
  - Situation Awareness – 1.0 FTEs
3. Meeting expenses are increasing by \$6K for the increased cost of the NERC and Regional Entity meetings hosted at Texas RE offices. The total meetings expense is \$234K, of which, \$216K is reimbursed through attendance fees for the Operations Training Seminar and the Compliance, Standards, and CIP Workshops. The remaining balance \$18K is related to meeting expenses for meetings hosted by Texas RE.
  4. Travel expenses are also increasing \$128K for a variety of reasons. 2011 will be the first year of significant CIP audit activity, which adds approximately \$63K to the travel costs in 2011. Additionally, there is approximately \$6K in higher audit expense for the non-CIP (693) audits due to lengthier on-site audits. There is approximately \$21K in additional NERC-related and workgroup related travel included in 2011. Finally, the remaining increase amount \$38K is primarily attributed to travel required for the Texas RE Independent Directors.
  5. Conference calls are increasing by approximately \$12K related to web conferencing services, which costs are higher than when Texas RE received administrative services from ERCOT ISO through a Memorandum of Understanding (MOU).
  6. Office rent is increasing \$135K year-over-year for two reasons: First, a large portion of the rent that was previously covered by the non-statutory budget (\$80K) is being moved into the statutory budget. This is because the non-statutory budget receives an allocation of indirect expenses based on its pro-rata share of FTEs, and the non-statutory budget is substantially reduced in 2011. The second reason for the increase is because Texas RE is procuring additional space to address future growth and need for meeting space. The resulting increase from this is approximately \$55K for the year.
  7. Office costs are increasing by \$176K for professional services primarily attributed to information technology (IT) services, which are being outsourced at a higher cost than the amount previously paid to ERCOT ISO under the MOU for the first half of 2010.
  8. Professional services are declining \$464K due to the elimination of start-up expenses from 2010 as well as the shifting of expense to office costs and consultants & contracts (due to the MOU).
  9. Miscellaneous expense is decreasing \$45K primarily due to the shift of training expenses to employee benefits from this account category.
  10. There is a decrease of approximately \$78K in indirect expenses allocated to statutory functions. These indirect expenses are allocating to the non-statutory budget for 2011.
  11. Depreciation is increasing \$143K due to 2011 recognizing a full year of a higher depreciable base of assets. 2010 was a start-up year for Texas RE, during which it purchased significant IT equipment and other fixed assets. There is also additional depreciation expense impacting the budget in 2011 for new projects being expected to be completed in 2011.
  12. Finally, fixed assets costs are decreasing because Texas RE's start-up asset purchases were completed in 2010. The year-over-year decrease is \$1,267K.

| Program  | Budget 2010 | Projection 2010 | Budget 2011 | Variance      |            |
|--|-------------|-----------------|-------------|---------------|------------|
|  |             |                 |             | 2010 Budget v | Variance % |
| Reliability Standards                                | 561,400     | 551,154         | 497,938     | (63,462)      | -11.3%     |
| Compliance Enforcement and Organization Registration | 6,746,229   | 6,939,596       | 7,142,058   | 395,829       | 5.9%       |
| Reliability Assessments and Performance Analysis     | 630,416     | 609,329         | 729,533     | 99,117        | 15.7%      |
| Training, Education and Operator Certification       | 464,526     | 460,615         | 561,336     | 96,810        | 20.8%      |
| Situation Awareness and Infrastructure Security      | 813,822     | 681,533         | 433,099     | (380,723)     | -46.8%     |



\*These exhibits do not include an allocation of working capital requirements among the Program Areas

| Total FTE's by Program Area                                | Budget       | Projection   | Direct              | Shared                           | Total FTEs     | Change              |
|--|--------------|--------------|---------------------|----------------------------------|----------------|---------------------|
|  | 2010         | 2010         | FTEs 2011<br>Budget | FTEs <sup>1</sup> 2011<br>Budget | 2011<br>Budget | from 2010<br>Budget |
| <b>STATUTORY</b>   |              |              |                     |                                  |                |                     |
| <b>Operational Programs</b>                                |              |              |                     |                                  |                |                     |
| Reliability Standards                                      | 2.06         | 1.67         |                     | 1.97                             | 1.97           | -0.09               |
| Compliance and Organization Registration and Certification | 21.74        | 26.64        |                     | 29.12                            | 29.12          | 7.38                |
| Training and Education                                     | 0.97         | 1.77         |                     | 1.84                             | 1.84           | 0.87                |
| Reliability Assessment and Performance Analysis            | 2.44         | 1.51         |                     | 3.18                             | 3.18           | 0.74                |
| Situation Awareness and Infrastructure Security            | 3.03         | 1.50         |                     | 2.03                             | 2.03           | -1.00               |
| <b>Total FTEs Operational Programs</b>                     | <b>30.24</b> | <b>33.09</b> | <b>0.00</b>         | <b>38.14</b>                     | <b>38.14</b>   | <b>7.90</b>         |
| <b>Administrative Programs</b>                             |              |              |                     |                                  |                |                     |
| Technical Committees and Member Forums                     | 0.00         | 0.25         |                     | 0.50                             | 0.50           | 0.50                |
| General & Administrative                                   | 1.06         | 2.17         |                     | 1.71                             | 1.71           | 0.65                |
| Information Technology                                     | 2.48         | 2.53         |                     | 2.60                             | 2.60           | 0.12                |
| Legal and Regulatory                                       | 3.17         | 2.36         |                     | 3.02                             | 3.02           | -0.15               |
| Human Resources  | 0.85         | 0.90         |                     | 1.03                             | 1.03           | 0.18                |
| Finance and Accounting                                     | 1.70         | 1.70         |                     | 2.00                             | 2.00           | 0.30                |
| <b>Total FTEs Administrative Programs</b>                  | <b>9.26</b>  | <b>9.91</b>  | <b>0.00</b>         | <b>10.86</b>                     | <b>10.86</b>   | <b>1.60</b>         |
| <b>Total FTEs</b>  | <b>39.50</b> | <b>43.00</b> | <b>0.00</b>         | <b>49.00</b>                     | <b>49.00</b>   | <b>9.50</b>         |

<sup>1</sup>A shared FTE is defined as an employee who performs both Statutory and Non-Statutory functions.

## 2010 Budget and Projection and 2011 Budget Comparisons

| <b>Statement of Activities and Capital Expenditures</b> |                       |                       |   |                     |   |
|---|-----------------------|-----------------------|---|---------------------|---|
| <b>2010 Budget &amp; Projection, and 2011 Budget</b>    |                       |                       |   |                     |   |
| <b>STATUTORY</b>  |                       |                       |   |                     |   |
|   | 2010<br>Budget        | 2010<br>Projection    | Variance<br>2010 Projection<br>v 2010 Budget<br>Over(Under) | 2011<br>Budget      | Variance<br>2011 Budget<br>v 2010 Budget<br>Over(Under) |
| <b>Funding</b>  |                       |                       |   |                     |   |
| <b>Texas RE Funding</b>                                 |                       |                       |   |                     |   |
| Texas RE Assessments                                    | \$ 9,144,340          | \$ 9,144,340          | \$ -  | \$ 9,227,823        | \$ 83,483   |
| Penalty Sanctions                                       | -                     | -                     | \$ -  | 20,000              | 20,000  |
| <b>Total Texas RE Funding</b>                           | <b>\$ 9,144,340</b>   | <b>\$ 9,144,340</b>   | <b>\$ -</b>   | <b>\$ 9,247,823</b> | <b>\$ 103,483</b>                                       |
| Membership Dues   | 27,000                | 27,000                | -   | 27,500              | 500   |
| Federal Grants  | -                     | -                     | -   | -                   | -   |
| Services & Software                                     | -                     | -                     | -   | -                   | -   |
| Workshops   | 180,000               | 180,000               | -   | 215,500             | 35,500  |
| Interest  | 2,000                 | 2,000                 | -   | 600                 | (1,400)   |
| Miscellaneous   | -                     | -                     | -   | -                   | -   |
| <b>Total Funding</b>                                    | <b>\$ 9,353,340</b>   | <b>\$ 9,353,340</b>   | <b>\$ -</b>   | <b>\$ 9,491,423</b> | <b>\$ 138,083</b>                                       |
| <b>Expenses</b>   |                       |                       |   |                     |   |
| <b>Personnel Expenses</b>                               |                       |                       |   |                     |   |
| Salaries  | \$ 3,841,781          | \$ 3,498,056          | \$ (343,724)  | \$ 4,795,004        | \$ 953,224  |
| Payroll Taxes   | 302,981               | 282,630               | (20,351)  | 423,650             | 120,669   |
| Benefits  | 408,773               | 378,687               | (30,086)  | 589,499             | 180,726   |
| Retirement Costs  | 550,669               | 519,226               | (31,443)  | 693,219             | 142,551   |
| <b>Total Personnel Expenses</b>                         | <b>\$ 5,104,203</b>   | <b>\$ 4,678,599</b>   | <b>\$ (425,604)</b>   | <b>\$ 6,501,372</b> | <b>\$ 1,397,169</b>                                     |
| <b>Meeting Expenses</b>                                 |                       |                       |   |                     |   |
| Meetings  | \$ 228,000            | \$ 179,185            | \$ (48,815)   | \$ 234,300          | \$ 6,300  |
| Travel  | 194,392               | 173,159               | (21,233)  | 322,753             | 128,361   |
| Conference Calls  | -                     | -                     | -   | 12,000              | 12,000  |
| <b>Total Meeting Expenses</b>                           | <b>\$ 422,392</b>     | <b>\$ 352,344</b>     | <b>\$ (70,048)</b>  | <b>\$ 569,053</b>   | <b>\$ 146,661</b>                                       |
| <b>Operating Expenses</b>                               |                       |                       |   |                     |   |
| Consultants & Contracts                                 | \$ 604,483            | \$ 604,483            | \$ -  | \$ 608,171          | \$ 3,688  |
| Office Rent   | 363,900               | 363,900               | -   | 499,000             | 135,100   |
| Office Costs  | 48,612                | 48,612                | -   | 224,495             | 175,883   |
| Professional Services                                   | 1,214,246             | 1,456,562             | 242,316   | 750,000             | (464,246)   |
| Miscellaneous   | 44,843                | 44,843                | -   | -                   | (44,843)  |
| Depreciation  | 299,657               | 343,657               | 44,000  | 443,085             | 143,428   |
| <b>Total Operating Expenses</b>                         | <b>\$ 2,575,740</b>   | <b>\$ 2,862,056</b>   | <b>\$ 286,316</b>   | <b>\$ 2,524,751</b> | <b>\$ (50,989)</b>                                      |
| <b>Total Direct Expenses</b>                            | <b>\$ 8,102,335</b>   | <b>\$ 7,892,999</b>   | <b>\$ (209,336)</b>   | <b>\$ 9,595,176</b> | <b>\$ 1,492,841</b>                                     |
| <b>Indirect Expenses</b>                                | <b>\$ (0)</b>         | <b>\$ (0)</b>         | <b>\$ -</b>   | <b>\$ (78,127)</b>  | <b>\$ (78,127)</b>                                      |
| <b>Other Non-Operating Expenses</b>                     | <b>\$ -</b>           | <b>\$ -</b>           | <b>\$ -</b>   | <b>\$ -</b>         | <b>\$ -</b>   |
| <b>Total Expenses</b>                                   | <b>\$ 8,102,335</b>   | <b>\$ 7,892,999</b>   | <b>\$ (209,336)</b>   | <b>\$ 9,517,049</b> | <b>\$ 1,414,714</b>                                     |
| <b>Change in Assets</b>                                 | <b>\$ 1,251,005</b>   | <b>\$ 1,460,341</b>   | <b>\$ 209,336</b>   | <b>\$ (25,626)</b>  | <b>\$ (1,276,631)</b>                                   |
| <b>Fixed Assets</b>                                     |                       |                       |   |                     |   |
| Depreciation  | (299,657)             | (343,657)             | (44,000)  | (443,085)           | (143,428)   |
| Computer & Software CapEx                               | 1,081,500             | 1,358,496             | 276,996   | 290,000             | (791,500)   |
| Furniture & Fixtures CapEx                              | 332,215               | 334,391               | 2,176   | -                   | (332,215)   |
| Equipment CapEx   | -                     | -                     | -   | -                   | -   |
| Leasehold Improvements                                  | -                     | -                     | -   | -                   | -   |
| <b>(Incr)Dec in Fixed Assets</b>                        | <b>\$ (1,114,058)</b> | <b>\$ (1,349,229)</b> | <b>\$ (235,171)</b>   | <b>\$ 153,085</b>   | <b>\$ 1,267,143</b>                                     |
| Allocation of Fixed Assets                              | \$ -                  | \$ -                  | \$ -  | \$ -                | \$ -  |
| <b>Change in Fixed Assets</b>                           | <b>(1,114,058)</b>    | <b>(1,349,229)</b>    | <b>(235,171)</b>  | <b>153,085</b>      | <b>1,267,143</b>  |
| <b>TOTAL CHANGE IN NET ASSETS</b>                       | <b>\$ 136,947</b>     | <b>\$ 111,112</b>     | <b>\$ (25,835)</b>  | <b>\$ 127,459</b>   | <b>\$ (9,488)</b>                                       |

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## Section A – Statutory Programs

### 2011 Business Plan and Budget

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**Section A — 2011 Business Plan**
**Reliability Standards Program**

| <b>Reliability Standards Program</b><br>(in whole dollars) |                    |                    |                                |
|--|--------------------|--------------------|--------------------------------|
|  | <b>2010 Budget</b> | <b>2011 Budget</b> | <b>Increase<br/>(Decrease)</b> |
| Total FTEs   | 2.06               | 1.97               | (0.09)                         |
| Direct Expenses  | \$ 273,959         | \$ 342,515         | \$ 68,557                      |
| Indirect Expenses  | \$ 228,439         | \$ 153,911         | \$ (74,529)                    |
| Inc(Dec) in Fixed Assets                                   | \$ 59,002          | \$ 1,512           | \$ (57,490)                    |
| Total Funding Requirement                                  | \$ 561,400         | \$ 497,938         | \$ (63,462)                    |

**Program Scope and Functional Description**

The Texas RE Reliability Standards program 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, and supports the national NERC Reliability Standards program. Texas RE Standards staff coordinates and publicly posts information regarding the activities of the Texas RE Reliability Standards Committee (RSC) and all regional standard drafting teams (SDTs).

The Texas RE Standards Development Process is open to all individuals and organizations that are directly and materially affected by the ERCOT region BPS, with no undue financial barriers and regardless of Texas RE membership status. As of June 3, 2010, Texas RE has 96 members and 50 entities have joined the Registered Ballot Body.

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 designated commenting periods. This process includes an appeals process. The site allows all registered parties (including NERC registered entities and others) to efficiently submit comments on Standard Authorization Requests (SARs) and draft standards during commenting periods, and it allows members of the Registered Ballot Body to join any open Registered Ballot Pool and to vote online.

Texas RE Standards staff supports and participates in the NERC Standards Committee and Regional Reliability Standards Working Group and has contributed to the 2010-2012 NERC Work Plan. The Texas RE Standards Coordinator was nominated and accepted into the NERC Communications and Planning Subcommittee of the NERC Standards Committee. In addition, the Texas RE staff reviews draft reliability standards from NERC and other regions, and staff from other Regional Entities reviews draft Texas RE regional standards.

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In general, Texas RE works to ensure that stakeholders have the most current and accurate information on regional and continent-wide reliability standards. Texas RE informs stakeholders of the impact and requirements of emerging NERC standards through training at Texas RE workshops and through other means including bi-monthly newsletters and email list announcements. 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.

Other functions performed by the Texas RE Standards staff (cooperating with other Texas RE functions) include:

- Monitor NERC and FERC standards-related activities and communicate relevant actions to other Texas RE employees as well as registered entities in the ERCOT region;
- Monitor the ERCOT Protocol and Operating Guide revision process and the PUC rule revision process to identify and react to proposals that have the potential to affect the reliability of the BPS;
- Provide timely information regarding Texas RE standards development activities to other interested parties in the region, including various ERCOT stakeholder committees.

### **2011 Key Assumptions**

- Regional standards workflow will generally remain constant, with no more than four (4) new SARs being developed during 2010, but will include integration of the impacts of the reassignment of requirements currently assigned to the Regional Reliability Organization (RRO).
- Standards program staffing is complete with two principal employees (one of whom spend some time supporting the Membership Forum program) and other shared employees, equating to 1.97 full time equivalent employees (FTEs) to perform the functions described above.
- The Standards program will enhance its outreach to stakeholders through additional announcements, newsletters, and enhancement of its training programs.
- As a voting member of NERC, Texas RE will be able to fully and independently participate in NERC standards activities. Standards staff will continue to support NERC in its continent-wide standards development efforts and will coordinate NERC standards participation in the ERCOT region, including reviewing issues and providing recommendations regarding commenting and voting in the NERC process. A stakeholder subcommittee may be formed to assist with this work.
- National standards projects will increase, in response to FERC Order 693, other FERC directives, and the need to review all standards every five years.
- Texas RE Standards staff will participate in additional NERC training to improve their effectiveness, including training in improving the quality of reliability standards, facilitation, negotiation, project management, and leadership.
- Travel will increase in 2011 to meet goals of increasing participation in NERC and other regional committees and subcommittees, additional training, meeting with NERC/FERC

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relating to specific standard development projects, and increasing local travel related to interactions with stakeholders and regulators.

- Texas RE will host a number of standards-related meetings, including monthly RSC meetings, standard drafting team meetings and regional standard workshops in 2011.

### **2011 Goals and Key Deliverables**

The goals of the Reliability Standards Program for 2011 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. Integrate the impacts of the anticipated reassignment of requirements currently assigned to the RRO.
4. 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 regional variances; and otherwise address issues that are not adequately addressed in NERC Reliability Standards (such as improving fill-in-the-blank requirements).
5. Facilitate Texas RE participation in NERC standards development activities. Prepare recommendations for voting on NERC ballots based on internal review and analysis and on input from stakeholders in the region.
6. Streamline and improve Texas RE's Standards Development Process and associated tools, including consideration of the results-based standards development methodology.
7. Consider developing an expedited process for standard development projects that do not require significant technical effort.
8. Participate and be actively involved in various NERC Reliability Standards programs and related functions.
9. Continue to enhance communication to and education of the registered entities to ensure adequate representation on the Registered Ballot Body.

To implement these goals, Texas RE Standards staff plans to lead the RSC in developing a mechanism to provide for more comprehensive review and comment on existing and proposed NERC standards, such as by forming a NERC Standards Review Subcommittee. Such a subcommittee could provide input to Texas RE in connection with Texas RE's vote on NERC Standards ballots, and it will provide a forum for stakeholder discussion of standards-related issues and for preparing group comments for submission to NERC.

The BAL-001-TRE-1 Standard Drafting Team continues its work to satisfy the FERC directive to develop a primary frequency response mechanism in a regional standard, by translating certain requirements in ERCOT Protocol section 5.9 into a regional standard format. The team has gone beyond the specific order of the directive by developing an enhanced primary frequency response standard and metric. The team has developed a quantitative performance metric for individual generating units, which has received substantial attention at the national level.

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

- Funding received for this activity is through assessment income and Texas RE membership dues, which fully funds total expenses and fixed asset requirements.

**Personnel Expenses**

- Headcount is decreasing approximately .09 FTEs, which brings the total to 1.97 FTEs for Reliability Standards. Despite the adjustments in staff, there has been a base increase of \$71K for personnel expenses due to the mix of personnel who perform standards-related work.

**Meeting Expenses**

- It is expected that Texas RE will host several regional standards related meetings, including RSC meetings, standard drafting team meetings and workshops in 2011, resulting in the addition of \$3K in costs for these activities.
- Travel will increase for the Reliability Standards activity. With the volume of NERC related meetings, standard drafting team meetings and training, the travel costs associated with those meetings will be higher by \$3K year-over-year.

**Operating Expenses**

- Operating Expenses are decreasing year-over-year by almost \$9K due to a reduction in Professional Services costs.
- The budget for Consultants & Contracts in 2011 is for costs associated with the use and maintenance of the Standards Tracking System, which provides standards development information, ballot body membership, and commenting and voting functionality for the Reliability Standards area. The same amount (\$10K) was included in Professional Services in 2010.
- In 2010, professional dues were reflected under Miscellaneous, totaling less than \$1K. In 2011, that expense was reclassified to Office Costs.

**Indirect Expenses**

- The indirect expenses for 2011 are budgeted at \$154K, which reflects a decrease of \$75K year-over-year due to lower administrative services costs. The higher costs in 2010 are attributed to non-recurring start-up costs that were paid in 2010.

**Other Non-Operating Expenses**

- N/A

**Fixed Asset Additions**

- There are capital costs for software revisions to the Reliability Standards Tracking System. Those revisions are associated with implementing Texas RE's revised ballot body structure.

## Reliability Standards Program

Funding sources and related expenses for the reliability standards section of the 2011 business plan are shown in the table below.

| <b>Statement of Activities and Capital Expenditures</b> |                   |                    |   |                    |   |
|---|-------------------|--------------------|---|--------------------|---|
| <b>2010 Budget &amp; Projection, and 2011 Budget</b>    |                   |                    |   |                    |   |
| <b>Reliability Standards</b>                            |                   |                    |   |                    |   |
|   | 2010<br>Budget    | 2010<br>Projection | Variance<br>2010 Projection<br>v 2010 Budget<br>Over(Under) | 2011<br>Budget     | Variance<br>2011 Budget<br>v 2010 Budget<br>Over(Under) |
| <b>Funding</b>  |                   |                    |   |                    |   |
| <b>Texas RE Funding</b>                                 |                   |                    |   |                    |   |
| Texas RE Assessments                                    | \$ 561,400        | \$ 561,400         | \$ -  | \$ 495,484         | \$ (65,916)   |
| Penalty Sanctions                                       | -                 | -                  | -   | 1,033              | 1,033   |
| <b>Total Texas RE Funding</b>                           | <b>\$ 561,400</b> | <b>\$ 561,400</b>  | <b>\$ -</b>   | <b>\$ 496,517</b>  | <b>\$ (64,883)</b>                                      |
| Membership Dues   | -                 | -                  | -   | 1,420              | 1,420   |
| Federal Grants  | -                 | -                  | -   | -                  | -   |
| Services & Software                                     | -                 | -                  | -   | -                  | -   |
| Workshops   | -                 | -                  | -   | -                  | -   |
| Interest  | -                 | -                  | -   | -                  | -   |
| Miscellaneous   | -                 | -                  | -   | -                  | -   |
| <b>Total Funding</b>                                    | <b>\$ 561,400</b> | <b>\$ 561,400</b>  | <b>\$ -</b>   | <b>\$ 497,938</b>  | <b>\$ (63,462)</b>                                      |
| <b>Expenses</b>   |                   |                    |   |                    |   |
| <b>Personnel Expenses</b>                               |                   |                    |   |                    |   |
| Salaries  | \$ 184,729        | \$ 168,201         | \$ (16,528)   | \$ 236,012         | \$ 51,283   |
| Payroll Taxes   | 14,901            | 13,900             | (1,001)   | 20,967             | 6,066   |
| Benefits  | 20,489            | 18,981             | (1,508)   | 26,697             | 6,209   |
| Retirement Costs  | 26,697            | 25,173             | (1,524)   | 34,222             | 7,524   |
| <b>Total Personnel Expenses</b>                         | <b>\$ 246,816</b> | <b>\$ 226,255</b>  | <b>\$ (20,561)</b>  | <b>\$ 317,898</b>  | <b>\$ 71,082</b>  |
| <b>Meeting Expenses</b>                                 |                   |                    |   |                    |   |
| Meetings  | \$ 400            | \$ 314             | \$ (86)   | \$ 3,700           | \$ 3,300  |
| Travel  | 6,824             | 6,079              | (745)   | 9,987              | 3,163   |
| Conference Calls  | -                 | -                  | -   | -                  | -   |
| <b>Total Meeting Expenses</b>                           | <b>\$ 7,224</b>   | <b>\$ 6,393</b>    | <b>\$ (831)</b>   | <b>\$ 13,687</b>   | <b>\$ 6,463</b>   |
| <b>Operating Expenses</b>                               |                   |                    |   |                    |   |
| Consultants & Contracts                                 | \$ -              | \$ -               | \$ -  | \$ 10,000          | \$ 10,000   |
| Office Rent   | -                 | -                  | -   | -                  | -   |
| Office Costs  | 480               | 480                | -   | 930                | 450   |
| Professional Services                                   | 18,824            | 18,824             | -   | -                  | (18,824)  |
| Miscellaneous   | 615               | 615                | -   | -                  | (615)   |
| Depreciation  | -                 | -                  | -   | -                  | -   |
| <b>Total Operating Expenses</b>                         | <b>\$ 19,919</b>  | <b>\$ 19,919</b>   | <b>\$ -</b>   | <b>\$ 10,930</b>   | <b>\$ (8,989)</b>                                       |
| <b>Total Direct Expenses</b>                            | <b>\$ 273,959</b> | <b>\$ 252,567</b>  | <b>\$ (21,392)</b>  | <b>\$ 342,515</b>  | <b>\$ 68,557</b>  |
| <b>Indirect Expenses</b>                                | <b>\$ 228,439</b> | <b>\$ 228,439</b>  | <b>\$ -</b>   | <b>\$ 153,911</b>  | <b>\$ (74,529)</b>                                      |
| <b>Other Non-Operating Expenses</b>                     | <b>\$ -</b>       | <b>\$ -</b>        | <b>\$ -</b>   | <b>\$ -</b>        | <b>\$ -</b>   |
| <b>Total Expenses</b>                                   | <b>\$ 502,398</b> | <b>\$ 481,006</b>  | <b>\$ (21,392)</b>  | <b>\$ 496,426</b>  | <b>\$ (5,972)</b>                                       |
| <b>Change in Assets</b>                                 | <b>\$ 59,002</b>  | <b>\$ 80,394</b>   | <b>\$ 21,392</b>  | <b>\$ 1,512</b>    | <b>\$ (57,490)</b>                                      |
| <b>Fixed Assets</b>                                     |                   |                    |   |                    |   |
| Depreciation  | -                 | -                  | -   | -                  | -   |
| Computer & Software CapEx                               | -                 | -                  | -   | 10,000             | 10,000  |
| Furniture & Fixtures CapEx                              | -                 | -                  | -   | -                  | 0   |
| Equipment CapEx   | -                 | -                  | -   | -                  | 0   |
| Leasehold Improvements                                  | -                 | -                  | -   | -                  | 0   |
| <b>(Incr)Dec in Fixed Assets</b>                        | <b>\$ -</b>       | <b>\$ -</b>        | <b>\$ -</b>   | <b>\$ (10,000)</b> | <b>\$ (10,000)</b>                                      |
| Allocation of Fixed Assets                              | \$ (59,002)       | \$ (59,002)        | -   | 8,488              | \$ 67,490   |
| <b>Change in Fixed Assets</b>                           | <b>(59,002)</b>   | <b>(59,002)</b>    | <b>-</b>  | <b>(1,512)</b>     | <b>57,490</b>   |
| <b>TOTAL CHANGE IN NET ASSETS</b>                       | <b>\$ 0</b>       | <b>\$ 21,392</b>   | <b>\$ 21,392</b>  | <b>\$ (0)</b>      | <b>\$ (0)</b>   |

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

| <b>Compliance Monitoring and Enforcement and Organization Registration and Certification Program</b> |                    |                    |                                |
|--|--------------------|--------------------|--------------------------------|
| (in whole dollars)   |                    |                    |                                |
|  | <b>2010 Budget</b> | <b>2011 Budget</b> | <b>Increase<br/>(Decrease)</b> |
| Total FTEs   | 21.74              | 29.12              | 7.38                           |
| Direct Expenses  | \$ 3,465,857       | \$ 4,991,215       | \$ 1,525,358                   |
| Indirect Expenses  | \$ 2,409,652       | \$ 2,275,064       | \$ (134,588)                   |
| Inc(Dec) in Fixed Assets   | \$ 870,720         | \$ (124,220)       | \$ (994,940)                   |
| Total Funding Requirement  | \$ 6,746,229       | \$ 7,142,058       | \$ 395,829                     |

### Program Scope and Functional Description

Texas RE's Compliance Monitoring and Enforcement and Organization Registration and Certification Program includes the key activities of registering (and where required, certifying) responsible entities, monitoring and assessing compliance with the NERC Reliability Standards and regional standards, and enforcing and ensuring mitigation of violations of Standards in accordance with NERC ROP. The primary monitoring and assessment methods include audits, self-reports, self-certifications, complaints, spot checks, compliance analyses/investigations, exception reporting and data submittals. Texas RE's substantially increased CIP activities during 2011- 2013 will have the most impact on this program. Texas RE had only one Table 1 CIP entity in 2010, and 40 registered entities are planned to become audibly compliant for the first time in 2011. These CIP activities are expected to further expand in 2012 and 2013 as Version 4 of the CIP standards is expected to further increase the number of registered entities with Critical Cyber Assets (CCAs) from the current CIP-002 risk-based methodology. Additionally, there will be a modest increase in 2011 due to start up and training costs for the expanded Nuclear standards. Full impact will not be felt until 2012 when the new standards begin to be audited.

### 2011 Key Assumptions

#### Organization Registration and Certification

- Texas RE will expend significant additional resources identifying, surveying, and mapping non-registered entity transmission and generation assets, including those of industrial facilities in the region.
- The amount of registration maintenance and review efforts will remain at least at 2010 levels.
- Texas RE will improve the timeliness of its registration activities and communications with stakeholders.

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- Significant Joint Registration Organizations (JROs) workload will continue, for maintenance of the existing JROs and Coordinated Functional Registrations (CFRs) and for facilitation of potential new JROs and CFRs.
  - No registration disputes are budgeted for 2011.
  - Significant additional time and resources will be expended communicating with owners of and analyzing and registering (and certifying, where needed) new transmission assets being planned and constructed as part of the Competitive Renewable Energy Zone (CREZ) transmission line projects in the ERCOT region. The Texas RE and NERC Portals should be fully functional and supporting electronic registration of new entities, revised entity information, and reporting of registration information to NERC by early 2011.
  - The number of registered functions is expected to continue to increase in 2011.

#### Compliance Monitoring

- 22 non-CIP (693) on-site audits and 30 non-CIP (693) table-top audits will be performed in 2011.
- The time to perform the 693 on-site and table-top audits will continue to increase due to an increase in depth and complexity (including the addition of new standards such as the five new MOD Standards).
- CIP related audits will be added to the 2011 audit schedule as most registered entities become auditably compliant.
- 14 on-site CIP audits will be performed of registered entities with declared critical assets. The on-site CIP audit is expected to require twice the time of a typical 693 on-site audit (net increase of 13).
- Six (6) table-top CIP audits will be performed of registered entities with no declared critical assets (net increase of 6).
- The audit group will provide scheduling and coordination of the CIP audits.
- The audit group will schedule and coordinate CIP audits.
- The audit group will also provide auditor support for each CIP audit.
- Each compliance auditor and investigator will be required to attend high priority NERC auditor and investigation training.
- A single Texas RE auditor will become qualified in accordance with the NRC-NERC MOU to conduct compliance monitoring of GOs/GOPs with nuclear holdings (per Order No. 706B) and support the NERC-led development of the nuclear auditing program.
- The number of non-CIP spot checks will be increased by 10% in conjunction with the risk-based approach to auditing.
- Modifications to the program will need to be made to support the changes to the NERC ROP that are in the process of being made.
- The compliance investigators will support one significant compliance investigation triggered by system events and eight compliance reviews following lesser events.
- Self-reported violations for CIP are expected to surpass those from the non-CIP (693) standards in 2011, but are not estimated to exceed 24.

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- The number of self-reports and complaints for non-CIP standards will be similar to 2010.
  - The work required for self-certifications is expected to increase as the CIP standards (and other newly applicable standards) are included for 2011.
  - Compliance investigations associated with events and disturbances are expected to increase, including additional investigations for CIP-related events.
  - Texas RE's Technical Feasibility Exceptions (TFE) evaluation and analysis workload will continue at the same level and will not expand in scope based on the assumption that as old TFEs are processed and closed new TFEs will continue to be created. Due to the uncertainty of the impact of version 4 of the CIP standards, no resources are planned to be added to address a possible influx of new TFEs related to the standards change.
  - TFE approvals will result in on-going compensating measure validation checks, quarterly and yearly reporting tracking and change management of TFEs.

### Compliance Enforcement

- The number of possible violations will continue to increase in 2011 as it has in 2010 (8 violations from January – April 2009 and 24 possible violations from January – April 2010).
- The volume of enforcement work for settlements will continue to increase, and the majority of alleged violations will continue to be handled through the settlement process.
- Targeted, aggressive enforcement will be used for those matters posing the most risk to the BPS.
- One large or two small to medium enforcement matters will be contested.
- Texas RE will continue to expend significant time coordinating with NERC and other Regional Entities to improve consistency in processing violations and applying penalties for registered entities.
- Texas RE staff will primarily draft and provide additional assistance to NERC regarding Notices of Penalty.
- Texas RE will work with NERC to develop new streamlined mechanisms to expedite minor administrative violations.

### Data Management and Reporting

- The level of compliance and enforcement data required to be tracked and number of reports requiring creation will continue to increase as the volume of audits, investigations, and enforcement actions increases.
- Records management efforts will continue and increase as additional audits, investigations, self-certifications, self-reports, and enforcement actions are processed and the volume of records continue to increase – particularly for the new CIP data.

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## 2011 Goals and Key Deliverables

### Organization Registration and Certification

- Continue to register and certify entities in accordance with Texas RE procedures and the NERC ROP, and improve the timeliness of the registrations and communications with stakeholders.
- Continue to work with NERC and other Regional Entities to improve consistency in performing registration and certification of registered entities.
- Perform surveys and analyses to identify all significant non-registered transmission and generation assets of industrial and other large facilities in the ERCOT region.
- Efficiently analyze and register new transmission assets planned and constructed as part of the CREZ transmission line project and plan for any required certifications.
- Work with the other Regional Entities and NERC on the NERC functional mapping project.

### Compliance Monitoring

- Continue to schedule and perform the audit program in accordance with Texas RE procedures and the NERC ROP.
- Perform formal, in depth, compliance audits on a one-year cycle for the RC/BA function, on a three-year cycle for the TOP function, and on a six-year cycle for all other registered functions.
- Implement the anticipated changes to the NERC ROP
- Schedule and perform an increased number of spot-checks in accordance with Texas RE procedures and the NERC Rules of Procedure.
- Continue to work with NERC and other Regional Entities to improve consistency in performing audits of registered entities.
- Continue to efficiently process all self-reports to timely either refer possible violations to enforcement or promptly notify the entity if no violation exists.
- Complete compliance investigations of events and disturbances in accordance with Texas RE procedures and the NERC ROP but in a more timely manner.
- Collaborate with NERC to enhance registered entities understanding of the requirements, capture lessons learned from assessments and enforcement actions, and reduce errors in self-reports.
- Efficiently create, communicate, distribute, review, and analyze annual self-certifications for all registered functions.

### Technical Feasibility Exceptions (TFEs)

- TFEs will be timely evaluated and processed
  - Approved TFEs will be validated and closed when completed, and otherwise tracked and tested while remaining open.
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Compliance Enforcement

- Review and process or dismiss all possible and alleged violations in a more timely fashion, to enhance visibility of penalties.
- Manage all settlements and contested cases to completion, as efficiently as possible.
- Coordinate with and provide assistance to Legal on settlements, appeals and contested cases.
- Continue to review and verify completion of mitigation plans in accordance with the NERC ROP but in a more timely fashion.
- Use targeted, aggressive enforcement for the violations posing the most risk to the BPS.
- Prosecute all contested enforcement matters and appeals.
- Work with NERC and other Regional Entities to streamline mechanisms to expedite minor, administrative violations and look to gain more discretion to handle the minor violations which pose no threat to the BPS.

Data Management and Reporting

- Improve the consistency and timeliness of the tracking of all compliance and enforcement data to enable review by and report creation for compliance and enforcement staff, management, the Board, and NERC.
- Continue records management efforts to include additional data and information and improve efficiency of data access and reporting.
- Assist Information Technology group with the preparation for and implementation of new document management software.

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## Funding Sources and Requirements — Explanation of Increase (Decrease)

### Funding Sources

- Funding received for this activity is through assessment income and fully funds total expenses and fixed asset requirements.

### Personnel Expenses

- Headcount is increasing approximately 7.38 FTEs, which brings the total to 29.12 FTEs for this activity. Only 3.0 new positions are requested to accommodate this increase, resulting in increased personnel costs of \$390K. The other 4.38 FTEs are being reassigned from non-statutory activities to accommodate increased statutory workloads, resulting in increased statutory cost of \$647K. (Texas RE will no longer be performing non-statutory activities, except those described in the non-statutory Activities Section of this document.) Finally, there is approximately \$250K in merit, promotion, and benefits increases included in the 2011 budget.

### Organization Registration and Certification

- In 2010, Texas RE required approximately one (1) FTE dedicated to performing non-statutory activities. In 2010, the headcount for Organization Registration and Certification was 1.69 FTEs. In 2011, the total headcount requirements are 2.69 FTEs, which includes the FTE that will be utilized to assist with additional statutory work requirements and to improve efficiency and timeliness of registration processing and communications.
  - Significant resources will be required to identify, survey, map, and register, if required, non-registered entity transmission and generation assets, specifically including those of industrial facilities in the region.
  - Additional surveys and mapping of the registered entities' functions will be required to ensure no gaps, on an on-going basis.
  - Resources will be required in 2011 for the review of, communications with, and registration of the CREZ transmission companies, as well as for planning of potential certification reviews.

### Compliance Monitoring

- In 2010, the number of dedicated auditors to the 693 on-site and table-top audits was 8.87. In 2011, the number of dedicated auditors will be 10.37. The increase is a result of the following:
  - The time to perform the 693 on-site and table-top audits will continue to increase due to an increase in depth and complexity.
  - Approximately 20% more requirements will be included in non-CIP compliance audits in 2011. This is a result of various standards being added to the list of audited actively monitored standards.
- In 2010, Texas RE required 3.5 FTEs to perform CIP compliance activities including Technical Feasibility Exception (TFE) processing. In 2011, the number of FTEs will increase by 2.5, for a total of 6.0 FTEs for this activity.

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- 14 of the CIP audits will be on-site and require one week on-site, and one week off-site to complete as compared to three to four days for a non-CIP on-site audit.
  - There are 43 requirements that have multiple sub-requirements that will be addressed in each on-site CIP audit.
  - Six (6) table-top CIP audits will be performed of registered entities with no declared critical assets.
  - In 2010, Texas RE required approximately 3.4 FTEs dedicated to perform the remainder of the Compliance Monitoring (excluding all audits). In 2011, Texas RE will require 4.78 FTEs, which is an increase of 1.38 FTEs.
    - The workload associated with event analyses and subsequent compliance reviews and compliance investigations is increasing with NERC's emphasis on expanding this area. Staff increases will allow for increased numbers of evaluations of disturbances and events in a more timely fashion.
    - The overall time to perform an individual event review and subsequent compliance review shall remain the same even though no non-statutory component of the review will be performed in 2011. 100% of this time in 2011 will be allocated to statutory.
    - Over the next three years, NERC has planned to increase the number of required spot-checks by 10%. Texas RE is expecting to increase the number of required spot-checks by approximately 10% as well.
    - The number of self-reported violations will continue to increase and require additional validation work. Many of the self-reports are expected to be related to the CIP Reliability Standards as almost all the registered entities will be required to be "Auditably Compliant" in 2011. In 2010, only one registered entity must be "Auditably Compliant".

#### Compliance Enforcement

- In 2010, Compliance Enforcement had 4.28 FTEs for this activity. Texas RE will require one (1) additional FTE for Compliance Enforcement, bringing the total headcount for this activity to 5.28 FTEs. This additional headcount is to process the increased NERC Violations in 2011, based upon current violation trends. The number of violations resulting from audits and self-reports has increased this year and there is an expectation that this trend will also be seen in 2011. Texas RE will also spend additional time processing each NERC violation than assumed in the 2010 budget. An additional 20 hours per violation has been budgeted for 2011. Most entities with alleged violations have requested settlement negotiations. Settlement takes more Texas RE enforcement staff time than the Notice of Alleged Violation process. Texas RE staff will now primarily draft and provide more assistance regarding the Notices of Penalty. Additional hours will be required to draft disposition documents to support Notice of Penalties.

### Meeting Expenses

- Texas RE does not expect to host NERC sponsored, or workgroup meetings in 2011 for Compliance, Organization Registration, and Certification activities, resulting in a reduction in budget of \$4K year-over-year.
- Travel will increase for Compliance, Organization Registration, and Certification activities. There is approximately \$68K in increased travel related to CIP audits. This will be the first year with significant CIP audit activity in Texas RE's region. The remaining increase of \$22K is associated with longer duration onsite audits, as well as increased participation at NERC sponsored meetings, workgroups and training.

### Operating Expenses

- Consultants and contracts reflect approximately \$257K for hosting and maintenance of compliance applications and recruitment. In 2010, these costs were included as part of professional services.
- Office costs are increasing \$2K year-over-year related to additional professional dues, audit supplies, and telephone expenses.
- Professional services in 2010 included hosting and maintenance of compliance applications (mentioned under consulting & contracts above) in 2010, and these amounts are being reclassified to consultants and contracts in 2011. The expenses, which are budgeted in 2011, under professional services, are approximately \$295K, for outside legal expenses related to enforcement and registration activities.
- In 2010, miscellaneous expenses included dues and training. In 2011, dues have been reclassified to office costs, and training is being reclassified as part of employee benefits.
- Depreciation expense attributed to the compliance applications and additional enhancements are causing the depreciation expense to increase \$43K year-over-year.

### Indirect Expenses

- The indirect expenses for 2011 are budgeted at \$2,275K, which reflects a decrease of \$135K year-over-year due to lower administrative services costs. The lower costs for administrative services are attributed to non-recurring start-up costs paid in 2010.

### Other Non-Operating Expenses

- N/A

### Fixed Asset Additions

- There are capital costs for software revisions to compliance applications, such as the compliance portal that are being reflected under this activity.

## 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 2011 business plan are shown in the table below.

| <b>Statement of Activities and Capital Expenditures</b>           |                     |                     |   |                     |   |
|---|---------------------|---------------------|---|---------------------|---|
| <b>2010 Budget &amp; Projection, and 2011 Budget</b>              |                     |                     |   |                     |   |
| <b>Compliance and Organization Registration and Certification</b> |                     |                     |   |                     |   |
|   | 2010<br>Budget      | 2010<br>Projection  | Variance<br>2010 Projection<br>v 2010 Budget<br>Over(Under) | 2011<br>Budget      | Variance<br>2011 Budget<br>v 2010 Budget<br>Over(Under) |
| <b>Funding</b>  |                     |                     |   |                     |   |
| <b>Texas RE Funding</b>   |                     |                     |   |                     |   |
| Texas RE Assessments  | \$ 6,746,229        | \$ 6,746,229        | \$ -  | \$ 7,105,792        | \$ 359,563  |
| Penalty Sanctions   | -                   | -                   | -   | 15,270              | 15,270  |
| <b>Total Texas RE Funding</b>                                     | <b>\$ 6,746,229</b> | <b>\$ 6,746,229</b> | <b>\$ -</b>   | <b>\$ 7,121,062</b> | <b>\$ 374,833</b>                                       |
| Membership Dues   | -                   | -                   | -   | 20,996              | 20,996  |
| Federal Grants  | -                   | -                   | -   | -                   | -   |
| Services & Software   | -                   | -                   | -   | -                   | -   |
| Workshops   | -                   | -                   | -   | -                   | -   |
| Interest  | -                   | -                   | -   | -                   | -   |
| Miscellaneous   | -                   | -                   | -   | -                   | -   |
| <b>Total Funding</b>  | <b>\$ 6,746,229</b> | <b>\$ 6,746,229</b> | <b>\$ -</b>   | <b>\$ 7,142,058</b> | <b>\$ 395,829</b>                                       |
| <b>Expenses</b>   |                     |                     |   |                     |   |
| <b>Personnel Expenses</b>   |                     |                     |   |                     |   |
| Salaries  | \$ 2,037,418        | \$ 1,855,130        | \$ (182,288)  | \$ 2,942,088        | \$ 904,671  |
| Payroll Taxes   | 161,372             | 150,533             | (10,839)  | 260,251             | 98,879  |
| Benefits  | 221,580             | 205,272             | (16,308)  | 367,508             | 145,928   |
| Retirement Costs  | 289,434             | 272,907             | (16,527)  | 426,603             | 137,169   |
| <b>Total Personnel Expenses</b>                                   | <b>\$ 2,709,803</b> | <b>\$ 2,483,841</b> | <b>\$ (225,962)</b>   | <b>\$ 3,996,450</b> | <b>\$ 1,286,647</b>                                     |
| <b>Meeting Expenses</b>   |                     |                     |   |                     |   |
| Meetings  | \$ 4,000            | \$ 3,144            | \$ (856)  | \$ -                | \$ (4,000)  |
| Travel  | 154,664             | 137,770             | (16,894)  | 245,078             | 90,413  |
| Conference Calls  | -                   | -                   | -   | -                   | -   |
| <b>Total Meeting Expenses</b>                                     | <b>\$ 158,664</b>   | <b>\$ 140,914</b>   | <b>\$ (17,750)</b>  | <b>\$ 245,078</b>   | <b>\$ 86,413</b>  |
| <b>Operating Expenses</b>   |                     |                     |   |                     |   |
| Consultants & Contracts   | \$ -                | \$ -                | \$ -  | \$ 256,957          | \$ 256,957  |
| Office Rent   | -                   | -                   | -   | -                   | -   |
| Office Costs  | 12,062              | 12,062              | -   | 14,480              | 2,418   |
| Professional Services   | 428,660             | 428,660             | -   | 294,500             | (134,160)   |
| Miscellaneous   | 15,561              | 15,561              | -   | -                   | (15,561)  |
| Depreciation  | 141,107             | 141,107             | -   | 183,750             | 42,643  |
| <b>Total Operating Expenses</b>                                   | <b>\$ 597,389</b>   | <b>\$ 597,389</b>   | <b>\$ -</b>   | <b>\$ 749,687</b>   | <b>\$ 152,297</b>                                       |
| <b>Total Direct Expenses</b>                                      | <b>\$ 3,465,857</b> | <b>\$ 3,222,144</b> | <b>\$ (243,712)</b>   | <b>\$ 4,991,215</b> | <b>\$ 1,525,358</b>                                     |
| <b>Indirect Expenses</b>  | <b>\$ 2,409,652</b> | <b>\$ 2,409,652</b> | <b>\$ -</b>   | <b>\$ 2,275,064</b> | <b>\$ (134,588)</b>                                     |
| <b>Other Non-Operating Expenses</b>                               | <b>\$ -</b>         | <b>\$ -</b>         | <b>\$ -</b>   | <b>\$ -</b>         | <b>\$ -</b>   |
| <b>Total Expenses</b>   | <b>\$ 5,875,509</b> | <b>\$ 5,631,796</b> | <b>\$ (243,712)</b>   | <b>\$ 7,266,279</b> | <b>\$ 1,390,770</b>                                     |
| <b>Change in Assets</b>   | <b>\$ 870,720</b>   | <b>\$ 1,114,433</b> | <b>\$ 243,712</b>   | <b>\$ (124,220)</b> | <b>\$ (994,940)</b>                                     |
| <b>Fixed Assets</b>   |                     |                     |   |                     |   |
| Depreciation  | (141,107)           | (141,107)           | -   | (183,750)           | (42,643)  |
| Computer & Software CapEx   | 374,237             | 427,753             | 53,516  | 185,000             | (189,237)   |
| Furniture & Fixtures CapEx  | 15,215              | 17,391              | 2,176   | -                   | (15,215)  |
| Equipment CapEx   | -                   | -                   | -   | -                   | -   |
| Leasehold Improvements  | -                   | -                   | -   | -                   | 0   |
| <b>(Incr)Dec in Fixed Assets</b>                                  | <b>\$ (248,345)</b> | <b>\$ (304,036)</b> | <b>\$ (55,692)</b>  | <b>\$ (1,250)</b>   | <b>\$ 247,095</b>                                       |
| Allocation of Fixed Assets  | \$ (622,375)        | \$ (622,375)        | -   | 125,470             | 747,846   |
| <b>Change in Fixed Assets</b>                                     | <b>(870,720)</b>    | <b>(926,411)</b>    | <b>(55,692)</b>   | <b>124,220</b>      | <b>994,940</b>  |
| <b>TOTAL CHANGE IN NET ASSETS</b>                                 | <b>\$ -</b>         | <b>\$ 188,021</b>   | <b>\$ 188,021</b>   | <b>\$ 0</b>         | <b>\$ (0)</b>   |

## Reliability Assessment and Performance Analysis Program

| <b>Reliability Assessments and Performance Analysis</b> |                    |                    |                                |
|---|--------------------|--------------------|--------------------------------|
| (in whole dollars)                                      |                    |                    |                                |
|   | <b>2010 Budget</b> | <b>2011 Budget</b> | <b>Increase<br/>(Decrease)</b> |
| Total FTEs  | 2.44               | 3.18               | 0.74                           |
| Direct Expenses   | \$ 290,095         | \$ 494,790         | \$ 204,695                     |
| Indirect Expenses                                       | \$ 270,464         | \$ 248,444         | \$ (22,020)                    |
| Inc(Dec) in Fixed Assets                                | \$ 69,857          | \$ (13,702)        | \$ (83,559)                    |
| Total Funding Requirement                               | \$ 630,416         | \$ 729,533         | \$ 99,117                      |

### Program Scope and Functional Description

Texas RE's Reliability Assessment and Performance Analysis ("RAPA") program provides input to seasonal and long-term reliability assessments for the adequacy of resources and operating reliability of the BPS in the ERCOT region, both existing and planned, as well as review of system events and disturbances that impact the ERCOT region BPS. In addition to support for these assessments and analyses, Texas RE will continue to participate with NERC in ongoing work to evaluate risk and severity from reliability performance, measure progress in improving current reliability and track leading indicators of future reliability. This program will ensure that data is collected from registered entities, reviewed, analyzed, and provided as input to NERC's detailed databases measuring the ongoing reliability performance of generation, transmission and demand response. RAPA also identifies and analyzes key issues that may affect reliability, such as market practices, legislation, regulation, technology developments, high-impact low frequency ("HILF") events, industry trends, or proposed public policy measures. Special reliability assessments on the effects to reliability of the BPS from specific issues or situations are developed based on an industry-based risk assessment and emerging initiatives. Event analyses will determine causative factors for system disturbances as well as best practices used in preparing or recovering from them. Texas RE will assist NERC and the other Regional Entities in disseminating these insights to industry.

### 2011 Key Assumptions

Texas RE RAPA program will:

- Provide independent reviews of reliability assessments for the ERCOT region and assist NERC in its overall development of the long-term, winter and summer assessments, along with the post-seasonal reviews and probabilistic risk study
- Along with other Regional Entities, gather data or perform analysis in support of federal initiatives related to the stimulus package, critical infrastructure protection to include high impact/low frequency (HILF), climate change, environmental regulations, and/or renewable energy initiatives
- Support the Transmission Adequacy Data System ("TADS") along with the new Demand response data system ("DADS") collection, which is mandatory in 2011

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- Participate in metric development, collection, and analysis with industry stakeholders through the Reliability Metrics Working Group (“RMWG”)
  - Support for two special reliability assessment initiatives in 2011 under NERC direction
  - Review and analyze system events and disturbances for lessons learned and system trends, in accordance with new process developments underway at NERC in 2010. The overall volume of events reviewed is expected to be similar to 2010.

### **2011 Goals and Key Deliverables**

- Provide ERCOT regional input to NERC reliability assessment reports:
  1. One 10-year long-term reliability assessment
  2. Two pre-seasonal assessments: summer and winter
  3. Two post-seasonal operational assessments: winter and summer
  4. One annual risk/severity and reliability metrics report, including overall system risk and violation risk analysis
  5. Additional reports for special assessments addressing key reliability issues, industry reliability concepts and emerging issues
- Evaluate, track, and assess severity/risk and reliability metrics and risk indices – including the maintenance of online reliability metrics and risk indices.
- Administer the Transmission Availability Data System (TADS) and launch the Demand response Availability Data System (DADS) within the ERCOT region
- Represent the ERCOT region on a reliability assessment and performance analysis team to review regional reliability assessment processes, criteria, and methods improving consistency and leveraging practices
- Participate in NERC and regional working groups such as the Reliability and Assessment Subcommittee (RAS) and other committees as needed to monitor and provide input on regional planning activities
- Timely review and analyze all events and system disturbances for lessons learned and system trends, including but not limited to 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, and any failure to meet NERC requirements related to frequency control or transmission security

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

- Funding received for this activity is through assessment income and fully funds total expenses and fixed asset requirements.

**Personnel Expenses**

- Reliability Assessments and Performance Analysis headcount is increasing by .74 FTEs. The additional .74 FTEs are needed to facilitate more independent Texas RE involvement in regional reliability assessment development along with NERC's plans for additional data collection, special assessments and reliability metrics. The increase is resulting in a budget impact to the Reliability Assessments and Performance Analysis activity personnel expenses of \$167K. Finally, there is \$30K in merit and benefits increases in the proposed 2011 budget.

**Meeting Expenses**

- Travel will increase for Reliability Assessments and Performance Analysis activities. The expanded responsibilities of this activity are necessitating the increase in the travel budget by \$8K. This is to accommodate the travel for RAS, RMWG and related committees and stakeholder meetings, increased workflow requirements, as well as the participation at NERC sponsored meetings, workgroups and training.

**Operating Expenses**

- In 2010, miscellaneous expenses included training costs. In 2011, training is being reclassified as part of employee benefits and therefore that expense is reflected in a different area.

**Indirect Expenses**

- The indirect expenses for 2011 are budgeted at \$248K, which reflects a decrease of \$22K year-over-year due to lower administrative services costs. The lower costs for administrative services are attributed to non-recurring start-up costs paid in 2010.

**Other Non-Operating Expenses**

- N/A

**Fixed Asset Additions**

- There is only an allocation of fixed assets for corporate applications associated with this activity.

## Reliability Assessment and Performance Analysis Program

Funding sources and related expenses for the reliability assessment and performance analysis section of the 2011 business plan are shown in the table below.

| <b>Statement of Activities and Capital Expenditures</b> |                   |                    |   |                    |   |
|---|-------------------|--------------------|---|--------------------|---|
| <b>2010 Budget &amp; Projection, and 2011 Budget</b>    |                   |                    |   |                    |   |
| <b>Reliability Assessment and Performance Analysis</b>  |                   |                    |   |                    |   |
|   | 2010<br>Budget    | 2010<br>Projection | Variance<br>2010 Projection<br>v 2010 Budget<br>Over(Under) | 2011<br>Budget     | Variance<br>2011 Budget<br>v 2010 Budget<br>Over(Under) |
| <b>Funding</b>  |                   |                    |   |                    |   |
| <b>Texas RE Funding</b>                                 |                   |                    |   |                    |   |
| Texas RE Assessments                                    | \$ 630,416        | \$ 630,416         | \$ -  | \$ 725,572         | \$ 95,156   |
| Penalty Sanctions                                       | -                 | -                  | -   | 1,668              | 1,668   |
| <b>Total Texas RE Funding</b>                           | <b>\$ 630,416</b> | <b>\$ 630,416</b>  | <b>\$ -</b>   | <b>\$ 727,240</b>  | <b>\$ 96,824</b>  |
| Membership Dues   | -                 | -                  | -   | 2,293              | 2,293   |
| Federal Grants  | -                 | -                  | -   | -                  | -   |
| Services & Software                                     | -                 | -                  | -   | -                  | -   |
| Workshops   | -                 | -                  | -   | -                  | -   |
| Interest  | -                 | -                  | -   | -                  | -   |
| Miscellaneous   | -                 | -                  | -   | -                  | -   |
| <b>Total Funding</b>                                    | <b>\$ 630,416</b> | <b>\$ 630,416</b>  | <b>\$ -</b>   | <b>\$ 729,533</b>  | <b>\$ 99,117</b>  |
| <b>Expenses</b>   |                   |                    |   |                    |   |
| <b>Personnel Expenses</b>                               |                   |                    |   |                    |   |
| Salaries  | \$ 217,004        | \$ 197,588         | \$ (19,415)   | \$ 361,177         | \$ 144,174  |
| Payroll Taxes   | 17,187            | 16,032             | (1,154)   | 32,136             | 14,949  |
| Benefits  | 23,632            | 21,892             | (1,739)   | 40,421             | 16,789  |
| Retirement Costs  | 30,793            | 29,035             | (1,758)   | 52,371             | 21,578  |
| <b>Total Personnel Expenses</b>                         | <b>\$ 288,615</b> | <b>\$ 264,548</b>  | <b>\$ (24,067)</b>  | <b>\$ 486,105</b>  | <b>\$ 197,490</b>                                       |
| <b>Meeting Expenses</b>                                 |                   |                    |   |                    |   |
| Meetings  | \$ -              | \$ -               | \$ -  | \$ -               | \$ -  |
| Travel  | 806               | 718                | (88)  | 8,685              | 7,879   |
| Conference Calls  | -                 | -                  | -   | -                  | -   |
| <b>Total Meeting Expenses</b>                           | <b>\$ 806</b>     | <b>\$ 718</b>      | <b>\$ (88)</b>  | <b>\$ 8,685</b>    | <b>\$ 7,879</b>   |
| <b>Operating Expenses</b>                               |                   |                    |   |                    |   |
| Consultants & Contracts                                 | \$ -              | \$ -               | \$ -  | \$ -               | \$ -  |
| Office Rent   | -                 | -                  | -   | -                  | -   |
| Office Costs  | -                 | -                  | -   | -                  | -   |
| Professional Services                                   | -                 | -                  | -   | -                  | -   |
| Miscellaneous   | 673               | 673                | -   | -                  | (673)   |
| Depreciation  | -                 | -                  | -   | -                  | -   |
| <b>Total Operating Expenses</b>                         | <b>\$ 673</b>     | <b>\$ 673</b>      | <b>\$ -</b>   | <b>\$ -</b>        | <b>\$ (673)</b>   |
| <b>Total Direct Expenses</b>                            | <b>\$ 290,095</b> | <b>\$ 265,939</b>  | <b>\$ (24,155)</b>  | <b>\$ 494,790</b>  | <b>\$ 204,695</b>                                       |
| <b>Indirect Expenses</b>                                | <b>\$ 270,464</b> | <b>\$ 270,464</b>  | <b>\$ -</b>   | <b>\$ 248,444</b>  | <b>\$ (22,020)</b>                                      |
| <b>Other Non-Operating Expenses</b>                     | <b>\$ -</b>       | <b>\$ -</b>        | <b>\$ -</b>   | <b>\$ -</b>        | <b>\$ -</b>   |
| <b>Total Expenses</b>                                   | <b>\$ 560,559</b> | <b>\$ 536,404</b>  | <b>\$ (24,155)</b>  | <b>\$ 743,234</b>  | <b>\$ 182,675</b>                                       |
| <b>Change in Assets</b>                                 | <b>\$ 69,857</b>  | <b>\$ 94,012</b>   | <b>\$ 24,155</b>  | <b>\$ (13,702)</b> | <b>\$ (83,559)</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                              | \$ (69,857)       | \$ (69,857)        | \$ -  | 13,702             | \$ 83,559   |
| <b>Change in Fixed Assets</b>                           | <b>(69,857)</b>   | <b>(69,857)</b>    | <b>-</b>  | <b>13,702</b>      | <b>83,559</b>   |
| <b>TOTAL CHANGE IN NET ASSETS</b>                       | <b>\$ -</b>       | <b>\$ 24,155</b>   | <b>\$ 24,155</b>  | <b>\$ -</b>        | <b>\$ (0)</b>   |

## Training, Education, and Operator Certification Program

| <b>Training, Education and Operator Certification</b><br>(in whole dollars) |                    |                    |                                |
|---|--------------------|--------------------|--------------------------------|
|   | <b>2010 Budget</b> | <b>2011 Budget</b> | <b>Increase<br/>(Decrease)</b> |
| Total FTEs  | 0.97               | 1.84               | 0.87                           |
| Direct Expenses   | \$ 328,735         | \$ 425,510         | \$ 96,776                      |
| Indirect Expenses   | \$ 107,918         | \$ 143,754         | \$ 35,836                      |
| Inc(Dec) in Fixed Assets  | \$ 27,874          | \$ (7,928)         | \$ (35,802)                    |
| Total Funding Requirement   | \$ 464,526         | \$ 561,336         | \$ 96,810                      |

### Program Scope and Functional Description

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 2011, the Texas RE Training, Education, and Operator Certification program will develop materials for and hold:

- Two (2) full-day Standards and Compliance workshops;
- Two (2) partial day workshops focusing on CIP standards compliance

In addition to the above workshops, Texas RE will also continue to coordinate and facilitate six (6) regular sessions of the Texas RE Operations Training Seminar and will continue to oversee and facilitate the System Operator testing in 2011. 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 on system performance and operation; provide an update on compliance and address emerging compliance initiatives; and address emerging issues in performance and system reliability. Texas RE will also continue to administer the System Operator testing process and will coordinate with ERCOT ISO on revision of the ERCOT Fundamentals Training Manual.

The Texas RE Training staff will continue to publish a bi-monthly newsletter, which will include useful compliance and standards-related information, updates about Texas RE and NERC activities, training, procedures, templates, forms, and current reliability-related topics.

Texas RE staff will continue to participate on selected industry sponsored seminars and panels to provide as much information to the industry as possible as well as to receive feedback.

### 2011 Key Assumptions

In 2011, the Texas RE Training, Education, and Operator Certification program assumes the following:

- Texas RE will develop and deliver two (2) full day Standards and Compliance workshops.
- Texas RE will develop and deliver two (2) partial day CIP standards Compliance workshops.
- Texas RE will coordinate and facilitate six sessions of the Texas RE Operations Training Seminar.
- The majority of the external expenses (but not employee time) incurred for the workshops and the Operations Training Seminar will be reimbursed through fees paid by workshop and seminar attendees.
- Texas RE will continue to oversee and facilitate the System Operator testing.
- The Training, Education, and Operator Certification program will remain a fully statutory function.
- Work with compliance staff to create teachable lessons-learned to incorporate into compliance workshops and Operations Training Seminar.
- One Training employee will participate on the NERC-Regional Entity Training and Education Group.

### **2011 Goals and Key Deliverables**

1. Develop two (2) full-day high quality 2011 Standards and Compliance workshops (approximately 125 stakeholders each).
2. Develop and deliver two (2) partial-day high quality CIP workshops.
3. Coordinate and host six (6) sessions of the Texas RE Operations Training Seminar (Three to Four days in length).
4. Create and publish a bi-monthly newsletter to update and educate stakeholders on compliance and standards information.
5. Continue to oversee and facilitate the System Operator testing.
6. Participate in the NERC-Regional Entity Training and Education Group conference calls and meetings.
7. Maintain a database for tracking seminar and workshop participants and feedback, and use this feedback to continue to improve on future seminars and workshops.

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## Funding Sources and Requirements — Explanation of Increase (Decrease)

### Funding Sources

- The majority of funding received (62%) for this activity is through assessment income and fully funds total personnel costs, indirect expenses, and fixed asset requirements.
- The remaining funding (38%) is received from attendance fees associated with the workshops and the Operations Training Seminar. These fees are designed to offset all direct workshop and seminar expenses, excluding the above mentioned categories.

### Personnel Expenses

- Headcount is increasing approximately .87 FTEs, which brings the total to 1.84 FTEs for this activity. The .87 FTEs are being transferred from other activities to accommodate increased workloads, resulting in increased cost of \$87K for this activity. The increased personnel expenses for the additional .87 FTEs are offset by corresponding reductions in other areas. Finally, there is approximately \$15K in merit, promotion, and benefits increases included in the 2011 budget.

### Meeting Expenses

- Texas RE will need to use outside conference space at an estimated cost of \$30K for all workshops and \$186K for the Operations Training Seminar; however, these costs will be reimbursed to Texas RE through fees paid by attendees.

### Operating Expenses

- In 2010, employees working in this activity had training budgeted under miscellaneous expenses; however, in 2011, employee training expenses are being reclassified under employee benefits and therefore that expense is reflected in a different area.

### Indirect Expenses

- The indirect expenses for 2011 are budgeted at \$144K, which reflects an increase of \$36K year-over-year. This activity is attracting additional indirect expense due to the increase in personnel. This is despite an overall reduction to the indirect expense pool for 2011.

### Other Non-Operating Expenses

- N/A

### Fixed Asset Additions

- There is only an allocation of fixed assets for corporate applications associated with this activity.

## Training, Education, and Operator Certification Program

Funding sources and related expenses for the training, education, and operator certification section of the 2011 business plan are shown in the table below.

| <b>Statement of Activities and Capital Expenditures</b> |                   |                    |   |                   |   |
|---|-------------------|--------------------|---|-------------------|---|
| <b>2010 Budget &amp; Projection, and 2011 Budget</b>    |                   |                    |   |                   |   |
| <b>Training and Education</b>                           |                   |                    |   |                   |   |
|   | 2010<br>Budget    | 2010<br>Projection | Variance<br>2010 Projection<br>v 2010 Budget<br>Over(Under) | 2011<br>Budget    | Variance<br>2011 Budget<br>v 2010 Budget<br>Over(Under) |
| <b>Funding</b>  |                   |                    |   |                   |   |
| <b>Texas RE Funding</b>                                 |                   |                    |   |                   |   |
| Texas RE Assessments                                    | \$ 284,526        | \$ 284,526         | \$ -  | \$ 343,544        | \$ 59,018   |
| Penalty Sanctions                                       | -                 | -                  | -   | 965               | 965   |
| <b>Total Texas RE Funding</b>                           | <b>\$ 284,526</b> | <b>\$ 284,526</b>  | <b>\$ -</b>   | <b>\$ 344,509</b> | <b>\$ 59,983</b>  |
| Membership Dues   | -                 | -                  | -   | 1,327             | 1,327   |
| Federal Grants  | -                 | -                  | -   | -                 | -   |
| Services & Software                                     | -                 | -                  | -   | -                 | -   |
| Workshops   | 180,000           | 180,000            | -   | 215,500           | 35,500  |
| Interest  | -                 | -                  | -   | -                 | -   |
| Miscellaneous   | -                 | -                  | -   | -                 | -   |
| <b>Total Funding</b>                                    | <b>\$ 464,526</b> | <b>\$ 464,526</b>  | <b>\$ -</b>   | <b>\$ 561,336</b> | <b>\$ 96,810</b>  |
| <b>Expenses</b>   |                   |                    |   |                   |   |
| <b>Personnel Expenses</b>                               |                   |                    |   |                   |   |
| Salaries  | \$ 81,122         | \$ 73,864          | \$ (7,258)  | \$ 155,953        | \$ 74,831   |
| Payroll Taxes   | 6,425             | 5,993              | (432)   | 13,831            | 7,406   |
| Benefits  | 8,834             | 8,184              | (650)   | 17,311            | 8,477   |
| Retirement Costs  | 11,511            | 10,854             | (657)   | 22,613            | 11,102  |
| <b>Total Personnel Expenses</b>                         | <b>\$ 107,893</b> | <b>\$ 98,896</b>   | <b>\$ (8,997)</b>   | <b>\$ 209,709</b> | <b>\$ 101,816</b>                                       |
| <b>Meeting Expenses</b>                                 |                   |                    |   |                   |   |
| Meetings  | \$ 220,000        | \$ 172,898         | \$ (47,102)   | \$ 215,500        | \$ (4,500)  |
| Travel  | -                 | -                  | -   | 301               | 301   |
| Conference Calls  | -                 | -                  | -   | -                 | -   |
| <b>Total Meeting Expenses</b>                           | <b>\$ 220,000</b> | <b>\$ 172,898</b>  | <b>\$ (47,102)</b>  | <b>\$ 215,801</b> | <b>\$ (4,199)</b>                                       |
| <b>Operating Expenses</b>                               |                   |                    |   |                   |   |
| Consultants & Contracts                                 | \$ -              | \$ -               | \$ -  | \$ -              | \$ -  |
| Office Rent   | -                 | -                  | -   | -                 | -   |
| Office Costs  | -                 | -                  | -   | -                 | -   |
| Professional Services                                   | -                 | -                  | -   | -                 | -   |
| Miscellaneous   | 842               | 842                | -   | -                 | (842)   |
| Depreciation  | -                 | -                  | -   | -                 | -   |
| <b>Total Operating Expenses</b>                         | <b>\$ 842</b>     | <b>\$ 842</b>      | <b>\$ -</b>   | <b>\$ -</b>       | <b>\$ (842)</b>   |
| <b>Total Direct Expenses</b>                            | <b>\$ 328,735</b> | <b>\$ 272,635</b>  | <b>\$ (56,099)</b>  | <b>\$ 425,510</b> | <b>\$ 96,776</b>  |
| <b>Indirect Expenses</b>                                | <b>\$ 107,918</b> | <b>\$ 107,918</b>  | <b>\$ -</b>   | <b>\$ 143,754</b> | <b>\$ 35,836</b>  |
| <b>Other Non-Operating Expenses</b>                     | <b>\$ -</b>       | <b>\$ -</b>        | <b>\$ -</b>   | <b>\$ -</b>       | <b>\$ -</b>   |
| <b>Total Expenses</b>                                   | <b>\$ 436,653</b> | <b>\$ 380,554</b>  | <b>\$ (56,099)</b>  | <b>\$ 569,264</b> | <b>\$ 132,611</b>                                       |
| <b>Change in Assets</b>                                 | <b>\$ 27,874</b>  | <b>\$ 83,973</b>   | <b>\$ 56,099</b>  | <b>\$ (7,928)</b> | <b>\$ (35,802)</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                              | \$ (27,874)       | \$ (27,874)        | -   | 7,928             | \$ 35,802   |
| <b>Change in Fixed Assets</b>                           | <b>(27,874)</b>   | <b>(27,874)</b>    | <b>-</b>  | <b>7,928</b>      | <b>35,802</b>   |
| <b>TOTAL CHANGE IN NET ASSETS</b>                       | <b>\$ -</b>       | <b>\$ 56,099</b>   | <b>\$ 56,099</b>  | <b>\$ 0</b>       | <b>\$ -</b>   |

## Situation Awareness and Infrastructure Security Program

| <b>Situation Awareness and Infrastructure Security</b> |             |             |                        |
|--|-------------|-------------|------------------------|
| (in whole dollars)                                     |             |             |                        |
|  | 2010 Budget | 2011 Budget | Increase<br>(Decrease) |
| Total FTEs   | 3.03        | 2.03        | (1.00)                 |
| Direct Expenses  | \$ 391,907  | \$ 283,248  | \$ (108,660)           |
| Indirect Expenses                                      | \$ 335,309  | \$ 158,598  | \$ (176,711)           |
| Inc(Dec) in Fixed Assets                               | \$ 86,605   | \$ (8,747)  | \$ (95,352)            |
| Total Funding Requirement                              | \$ 813,822  | \$ 433,099  | \$ (380,723)           |

### Program Scope and Functional Description

This program includes two distinctly unique parts: Situation Awareness and Infrastructure Security. Situation Awareness covers the assessment of the current condition of and threats to the BPS and development and application of situation awareness tools for monitoring the BPS. Infrastructure Security resources participate in the on-going development of CIP standards, improving regional coordination and cooperation of the CIP program, and to support the NERC-led efforts to develop industry alerts and guidance and to support NERC's role as the Electricity Sector – Information Sharing and Analysis Center. (Most of the CIP resources functionally reside in the Compliance, Enforcement and Organizational Registration and Certification Program.)

### 2011 Key Assumptions

- Expansion of the Situation Awareness for FERC, NERC and the Regional Entities ("SAFNR") tool is planned in 2011. Primary effort will be the responsibility of the Reliability Coordinator (RC) in this region, with overall project management and funding arranged by NERC.
- More rigorous utilization and reporting associated with Situation Awareness is planned in 2011.
- The CIP Standards will continue to be modified via the Standards development process which will drive ongoing work load through 2011.

### 2011 Goals and Key Deliverables

- Implement the SAFNR system, train Texas RE personnel on its use and coordinate its application with the RC in the ERCOT region, NERC and FERC.
- Assist NERC, RC and other Regional Entities' staff in conducting drills meant to improve coordination during wide-area system disturbances.
- Assist NERC staff in delivering "lessons learned" outreach to registered entities in 2011.

- Participate in the NERC CIP conference calls and meetings to advance national coordination and cooperation and improve CIP processes and systems.
- Attend NERC CIP training sessions.
- Train 1 employee for Nuclear CIP audits.
- Texas RE will provide support to NERC in the creation of the Nuclear CIP program.

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

- Funding received for this activity is through assessment income and fully funds total expenses and fixed asset requirements.

**Personnel Expenses**

- Situation Awareness and Infrastructure Security headcount is decreasing by 1.00 FTE. Transfers away from this activity are resulting in a net decrease to personnel expenses \$105K (most work has been shifted to the CMEP program). The transfers are not expected to impact workflow and the following items are expected to be accomplished including the normal activities of this area:
  - Incremental increases in personnel to assist NERC and the RC in the region in coordinating SAFNR system development and to begin enhanced use of the system and
  - Shifting CIP personnel to Compliance activities in 2011.

**Meeting Expenses**

- Travel will decrease \$3K for Situation Awareness and Infrastructure Security. The travel related to the CIP audits is budgeted in the Compliance area. The travel expense budgeted under Situation Awareness and Infrastructure Security is primarily for attending CIP workgroup meetings.

**Operating Expenses**

- In 2010, miscellaneous expenses included training costs. In 2011, training has been reclassified as part of employee benefits and therefore that expense is reflected in a different area.

**Indirect Expenses**

- The indirect expenses for 2011 are budgeted at \$159K, which reflects a decrease of \$177K year-over-year due to lower administrative services costs and fewer personnel, which is the basis of the allocation. The lower costs for administrative services are attributed to non-recurring start-up costs paid in 2010.

**Other Non-Operating Expenses**

- N/A

**Fixed Asset Additions**

- There is only an allocation of fixed assets for corporate applications associated with this activity.

## Situation Awareness and Infrastructure Security Program

Funding sources and related expenses for the situation awareness and infrastructure security section of the 2011 business plan are shown in the table below.

| <b>Statement of Activities and Capital Expenditures</b> |                   |                    |   |                   |   |
|---|-------------------|--------------------|---|-------------------|---|
| <b>2010 Budget &amp; Projection, and 2011 Budget</b>    |                   |                    |   |                   |   |
| <b>Situation Awareness and Infrastructure Security</b>  |                   |                    |   |                   |   |
|   | 2010<br>Budget    | 2010<br>Projection | Variance<br>2010 Projection<br>v 2010 Budget<br>Over(Under) | 2011<br>Budget    | Variance<br>2011 Budget<br>v 2010 Budget<br>Over(Under) |
| <b>Funding</b>  |                   |                    |   |                   |   |
| <b>Texas RE Funding</b>                                 |                   |                    |   |                   |   |
| Texas RE Assessments                                    | \$ 813,822        | \$ 813,822         | \$ -  | \$ 430,571        | \$ (383,251)  |
| Penalty Sanctions                                       | -                 | -                  | -   | 1,064             | 1,064   |
| <b>Total Texas RE Funding</b>                           | <u>\$ 813,822</u> | <u>\$ 813,822</u>  | <u>\$ -</u>   | <u>\$ 431,636</u> | <u>\$ (382,186)</u>                                     |
| Membership Dues   | -                 | -                  | -   | 1,464             | 1,464   |
| Federal Grants  | -                 | -                  | -   | -                 | -   |
| Services & Software                                     | -                 | -                  | -   | -                 | -   |
| Workshops   | -                 | -                  | -   | -                 | -   |
| Interest  | -                 | -                  | -   | -                 | -   |
| Miscellaneous   | -                 | -                  | -   | -                 | -   |
| <b>Total Funding</b>                                    | <u>\$ 813,822</u> | <u>\$ 813,822</u>  | <u>\$ -</u>   | <u>\$ 433,099</u> | <u>\$ (380,723)</u>                                     |
| <b>Expenses</b>   |                   |                    |   |                   |   |
| <b>Personnel Expenses</b>                               |                   |                    |   |                   |   |
| Salaries  | \$ 291,164        | \$ 265,113         | \$ (26,050)   | \$ 209,656        | \$ (81,507)   |
| Payroll Taxes   | 23,060            | 21,511             | (1,549)   | 18,651            | (4,409)   |
| Benefits  | 31,708            | 29,374             | (2,334)   | 23,272            | (8,436)   |
| Retirement Costs  | 41,316            | 38,957             | (2,359)   | 30,400            | (10,916)  |
| <b>Total Personnel Expenses</b>                         | <u>\$ 387,247</u> | <u>\$ 354,955</u>  | <u>\$ (32,292)</u>  | <u>\$ 281,980</u> | <u>\$ (105,268)</u>                                     |
| <b>Meeting Expenses</b>                                 |                   |                    |   |                   |   |
| Meetings  | \$ -              | \$ -               | \$ -  | \$ -              | \$ -  |
| Travel  | 4,260             | 3,795              | (465)   | 1,268             | (2,992)   |
| Conference Calls  | -                 | -                  | -   | -                 | -   |
| <b>Total Meeting Expenses</b>                           | <u>\$ 4,260</u>   | <u>\$ 3,795</u>    | <u>\$ (465)</u>   | <u>\$ 1,268</u>   | <u>\$ (2,992)</u>                                       |
| <b>Operating Expenses</b>                               |                   |                    |   |                   |   |
| Consultants & Contracts                                 | \$ -              | \$ -               | \$ -  | \$ -              | \$ -  |
| Office Rent   | -                 | -                  | -   | -                 | -   |
| Office Costs  | -                 | -                  | -   | -                 | -   |
| Professional Services                                   | -                 | -                  | -   | -                 | -   |
| Miscellaneous   | 400               | 400                | -   | -                 | (400)   |
| Depreciation  | -                 | -                  | -   | -                 | -   |
| <b>Total Operating Expenses</b>                         | <u>\$ 400</u>     | <u>\$ 400</u>      | <u>\$ -</u>   | <u>\$ -</u>       | <u>\$ (400)</u>   |
| <b>Total Direct Expenses</b>                            | <u>\$ 391,907</u> | <u>\$ 359,150</u>  | <u>\$ (32,758)</u>  | <u>\$ 283,248</u> | <u>\$ (108,660)</u>                                     |
| <b>Indirect Expenses</b>                                | <u>\$ 335,309</u> | <u>\$ 335,309</u>  | <u>\$ -</u>   | <u>\$ 158,598</u> | <u>\$ (176,711)</u>                                     |
| <b>Other Non-Operating Expenses</b>                     | <u>\$ -</u>       | <u>\$ -</u>        | <u>\$ -</u>   | <u>\$ -</u>       | <u>\$ -</u>   |
| <b>Total Expenses</b>                                   | <u>\$ 727,217</u> | <u>\$ 694,459</u>  | <u>\$ (32,758)</u>  | <u>\$ 441,846</u> | <u>\$ (285,371)</u>                                     |
| <b>Change in Assets</b>                                 | <u>\$ 86,605</u>  | <u>\$ 119,363</u>  | <u>\$ 32,758</u>  | <u>\$ (8,747)</u> | <u>\$ (95,352)</u>                                      |
| <b>Fixed Assets</b>                                     |                   |                    |   |                   |   |
| Depreciation  | -                 | -                  | -   | -                 | -   |
| Computer & Software CapEx                               | -                 | -                  | -   | -                 | -   |
| Furniture & Fixtures CapEx                              | -                 | -                  | -   | -                 | -   |
| Equipment CapEx   | -                 | -                  | -   | -                 | -   |
| Leasehold Improvements                                  | -                 | -                  | -   | -                 | -   |
| <b>(Incr)Dec in Fixed Assets</b>                        | <u>\$ -</u>       | <u>\$ -</u>        | <u>\$ -</u>   | <u>\$ -</u>       | <u>\$ -</u>   |
| Allocation of Fixed Assets                              | \$ (86,605)       | \$ (86,605)        | -   | 8,747             | 95,352  |
| <b>Change in Fixed Assets</b>                           | <u>(86,605)</u>   | <u>(86,605)</u>    | <u>-</u>  | <u>8,747</u>      | <u>95,352</u>   |
| <b>TOTAL CHANGE IN NET ASSETS</b>                       | <u>\$ -</u>       | <u>\$ 32,758</u>   | <u>\$ 32,758</u>  | <u>\$ 0</u>       | <u>\$ -</u>   |

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**Administrative Services**

| <b>Administrative Services</b><br>(in whole dollars)        |                |                |                        |
|---|----------------|----------------|------------------------|
|   | 2010 Budget    | 2011 Budget    | Increase<br>(Decrease) |
| Total FTEs  | 9.26           | 10.86          | 1.60                   |
| Total Direct Expenses                                       | \$ 3,351,783   | \$ 3,057,898   | \$ (293,885)           |
| Inc(Dec) in Fixed Assets                                    | \$ 865,713     | \$ (164,335)   | \$ (1,030,048)         |
| Less: Other Funding Sources                                 | \$ (29,000)    | \$ (600)       | \$ 28,400              |
| Total Allocation to Statutory Programs as Indirect Expenses | \$ (3,351,783) | \$ (2,983,407) | \$ 368,376             |
| Funding Requirement for Working Capital                     | \$ 136,947     | \$ 127,459     | \$ (9,488)             |

**Methodology for Allocation of Administrative Services Expenses to Programs**

- Texas RE allocates its indirect expenses to the functional areas via a headcount allocation. Each direct activity receives a pro-rata allocation of expense based on its FTEs compared to total FTEs.
- Texas RE maintains the Fines and Penalty money collected and is used to reduce the amount of the assessments to the region.
- Texas RE also makes adjustments to its cash reserve using the General and Administrative (G&A) function.
- Fixed assets that benefit the entire corporation that are not specific to any one activity/function will be allocated based on headcount to all of the direct activities.

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**Technical Committees and Member Forums**

| <b>Technical Committees and Member Forums</b> |             |             |                        |
|---|-------------|-------------|------------------------|
| (in whole dollars)                            |             |             |                        |
|   | 2010 Budget | 2011 Budget | Increase<br>(Decrease) |
| Total FTEs                                    | -           | 0.50        | 0.50                   |
| Expenses                                      | \$ -        | \$ -        | \$ -                   |
| Inc(Dec) in Fixed Assets                      | \$ -        | \$ -        | \$ -                   |
| Working Capital Requirement                   | \$ -        | \$ -        | \$ -                   |

### Program Scope and Functional Description

Texas RE staff will provide limited administrative support for the Texas RE Member Representatives Committee (MRC) and other membership activities, including the scheduling and coordination of MRC and membership meetings, distribution and posting of meeting materials and minutes, maintenance of applicable areas of the Texas RE website, and facilitation of membership announcements and communications. The MRC is a stakeholder committee, comprised of two representatives from each Sector (except for Sectors with less than two members, which have only one representative), which currently has eleven representatives. The MRC meets at least six times per year (and plans to meet approximately eight times in 2011) to discuss Texas RE business plans, budgets, and funding, and other matters relevant to Texas RE's operations and purpose, including compliance and the reliability of the BPS. The MRC normally meets prior to the Texas RE Board meetings and provides feedback and input to Texas RE staff and Board of Directors. The chair and vice chair of MRC are also on the Texas RE Board. This position is budgeted under G&A to protect the confidentiality of compensation.

### 2011 Key Assumptions

- Texas RE will hold approximately eight MRC meetings and one membership meeting per year
- The MRC will not have a significant number of working groups or subcommittees in 2011
- MRC will review and discuss NERC Event Analysis Lessons Learned, NERC Compliance Application Notices (CANs), and NERC Compliance Analysis Reports
- Texas RE subject matter experts will be available to provide a limited amount of support for compliance and event analysis-related discussions
- Support of the RSC will be from Texas RE Reliability Standards staff
- Membership meetings will only require outside conference meeting space for a maximum of one meeting per year

### 2011 Goals and Key Deliverables

The Goal of the technical committee and member forums program is to coordinate membership registration, voting, and communications, and to provide and facilitate a mechanism for owners, users, and operators of the BPS to communicate, coordinate best practices (including

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discussions of NERC CANs, Compliance Analysis Reports, and Event Lessons Learned), and provide input to Texas RE staff and the Texas RE Board of Directors.

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

#### Funding Sources

- In 2010, Texas RE funded the primary support for the new Member Representatives Committee and subcommittee activities in the Legal and Regulatory and General & Administrative budget.

#### Personnel Expenses

- There is approximately .50 FTEs for this activity; however, for salary confidentiality purposes the personnel expenses are being accumulated under the G&A activity.

#### Meeting Expenses

- The meeting expenses associated with membership and committees are reflected under the G&A activity as well. These are reflected there for consistency. The revenue and expenses are being contained to one area that will allow appropriate accounting.

#### Operating Expenses

- There are no significant operating expenses for this area.

#### Indirect Expenses

- This is an indirect activity and therefore does not receive an allocation of indirect expense. This activity fully allocates through the G&A activity allocation.

#### Other Non-Operating Expenses

- N/A

#### Fixed Asset Additions

- N/A

## Technical Committees and Member Forums

Funding sources and related expenses for the Technical Committees and Member Forums section of the 2011 business plan are included in General & Administrative.

| Statement of Activities and Capital Expenditures |                |                    |   |                |   |
|--|----------------|--------------------|---|----------------|---|
| 2010 Budget & Projection, and 2011 Budget        |                |                    |   |                |   |
| Technical Committees and Member Forums           |                |                    |   |                |   |
|  | 2010<br>Budget | 2010<br>Projection | Variance<br>2010 Projection<br>v 2010 Budget<br>Over(Under) | 2011<br>Budget | Variance<br>2011 Budget<br>v 2010 Budget<br>Over(Under) |
| <b>Funding</b>                                   |                |                    |   |                |   |
| <b>Texas RE Funding</b>                          |                |                    |   |                |   |
| Texas RE Assessments                             | \$ -           | \$ -               | \$ -  | \$ -           | \$ -  |
| Penalty Sanctions                                | -              | -                  | -   | -              | -   |
| <b>Total Texas RE Funding</b>                    | <b>\$ -</b>    | <b>\$ -</b>        | <b>\$ -</b>   | <b>\$ -</b>    | <b>\$ -</b>   |
| Membership Dues                                  | -              | -                  | -   | -              | -   |
| Federal Grants                                   | -              | -                  | -   | -              | -   |
| Services & Software                              | -              | -                  | -   | -              | -   |
| Workshops  | -              | -                  | -   | -              | -   |
| Interest   | -              | -                  | -   | -              | -   |
| Miscellaneous                                    | -              | -                  | -   | -              | -   |
| <b>Total Funding</b>                             | <b>\$ -</b>    | <b>\$ -</b>        | <b>\$ -</b>   | <b>\$ -</b>    | <b>\$ -</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   | -              | -                  | -   | -              | -   |
| Conference Calls                                 | -              | -                  | -   | -              | -   |
| <b>Total Meeting Expenses</b>                    | <b>\$ -</b>    | <b>\$ -</b>        | <b>\$ -</b>   | <b>\$ -</b>    | <b>\$ -</b>   |
| <b>Operating Expenses</b>                        |                |                    |   |                |   |
| Consultants & Contracts                          | \$ -           | \$ -               | \$ -  | \$ -           | \$ -  |
| Office Rent                                      | -              | -                  | -   | -              | -   |
| Office Costs                                     | -              | -                  | -   | -              | -   |
| Professional Services                            | -              | -                  | -   | -              | -   |
| Miscellaneous                                    | -              | -                  | -   | -              | -   |
| Depreciation                                     | -              | -                  | -   | -              | -   |
| <b>Total Operating Expenses</b>                  | <b>\$ -</b>    | <b>\$ -</b>        | <b>\$ -</b>   | <b>\$ -</b>    | <b>\$ -</b>   |
| <b>Total Direct Expenses</b>                     | <b>\$ -</b>    | <b>\$ -</b>        | <b>\$ -</b>   | <b>\$ -</b>    | <b>\$ -</b>   |
| <b>Indirect Expenses</b>                         | <b>\$ -</b>    | <b>\$ -</b>        | <b>\$ -</b>   | <b>\$ -</b>    | <b>\$ -</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>\$ -</b>    | <b>\$ -</b>        | <b>\$ -</b>   | <b>\$ -</b>    | <b>\$ -</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 NET ASSETS</b>                | <b>\$ -</b>    | <b>\$ -</b>        | <b>\$ -</b>   | <b>\$ -</b>    | <b>\$ -</b>   |

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**General and Administrative**

| <b>General and Administrative</b><br>(in whole dollars) |                    |                    |                                |
|---|--------------------|--------------------|--------------------------------|
|   | <b>2010 Budget</b> | <b>2011 Budget</b> | <b>Increase<br/>(Decrease)</b> |
| Total FTEs  | 1.06               | 1.71               | 0.65                           |
| Direct Expenses   | \$ 2,605,000       | \$ 1,143,056       | \$ (1,461,943)                 |
| Inc(Dec) in Fixed Assets                                | \$ 170,450         | \$ (115,952)       | \$ (286,402)                   |
| Working Capital Requirement                             | \$ 136,947         | \$ 127,459         | \$ (9,488)                     |

**Program Scope and Functional Description**

This activity includes the President and CEO who carries out the general affairs of the Texas RE. A significant amount of the CEO's time is expended for and allocated to CMEP and other operational activities. Additionally, this budget reflects an executive assistant, who provides administrative support and assists in maintaining internal controls (by providing for segregation of duties for procurement, vendor approval and similar activities). A significant portion of the time expended by the G&A staff is expended for and allocated to core activities, including standards, compliance monitoring, enforcement, registration, training, situation awareness, reliability assessment, and performance analysis, training, and other indirect activities. The CEO reports exclusively to the Texas RE Board of Directors. The CEO is responsible for:

1. Overseeing and managing the activities of Texas RE.
2. Making final decisions with respect to non-contested enforcement related to compliance actions for violations of reliability standards.
3. Making employment-related decisions for all employees of Texas RE.
4. Making an annual report and periodic reports to Texas RE's Board concerning the activities and expenditures of Texas RE.
5. Ensuring that Texas RE files all required reports with NERC.
6. 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).
7. Retaining or terminating outside counsel or other advisors as deemed appropriate.
8. Performing such other duties as may be determined from time to time by Texas RE's Board, for the benefit of Texas RE.

**2011 Key Assumptions**

- Texas RE will perform all statutory activities in the ERCOT region as the Regional Entity.
- A small portion of non-statutory related work will be required to finalize and assist the PUCT with wrapping-up its monitoring requirements.

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- Texas RE will be a separate corporation that is not associated with nor affiliated with ERCOT ISO and does not receive any administrative services from ERCOT ISO.
  - Texas RE total staff will increase from 47 (46 Budgeted in 2010) staff to 50 (40.5 statutory to 49.0 statutory, and 6.5 non-statutory to 1.0 non-statutory).
  - Where possible, all appropriate direct program expenses will be direct costs to the respective program and function. Only corporate services expenses and personnel will remain in administrative services.
  - Members Forum FTEs and expenses are included within this activity due to compensation confidentiality for employees and because Members forum revenue is recorded within the G&A activity. Due to these items being included within, there is no need to break the operating expenses out into the Members Forum activity.

### **2011 Goals and Key Deliverables**

1. Communicate and maintain effective relationships with the Board, industry, regulators, and other stakeholders.
2. Ensure that the new corporation is appropriately staffed and managed to maximize stakeholder value as well as to maintain independence.
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.

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

- Indirect program costs are allocated to the direct programs.
- Texas RE is expecting to receive \$28K in membership dues in 2011. These dues are used to support the member processes and activities within Texas RE. This funding is allocated to the programs based on Texas RE's allocation method.
- Additionally, Texas RE is reflecting Fines and Penalties expected to be collected before June 30, 2010 of \$20K, which is being used to lower assessments in the region. This funding is allocated to the programs based on Texas RE's allocation method.
- Finally, Texas RE is expecting to earn less than \$1K in interest income that will be used to further reduce assessments in the region.

**Personnel Expenses**

- In 2010, personnel expenses for G&A, Legal, IT, HR, and Finance were all budgeted under the G&A activity to avoid identifying individual employee compensation. However, for 2011, G&A, only reflects the personnel expenses of the G&A activity, HR activity, and Member Forums activities. The budgets for IT, Legal and Finance have all been reclassified to their respective activities for 2011. This is the reason for the \$1,144K decrease in personnel costs. An external relations liaison position was added in July 2010 (this position was not included in the 2010 budget), to support the four new Independent Directors and to provide governmental, external relations, and Legal program support. The HR Manager's salary and benefits are being reflected under G&A to avoid releasing sensitive information about one individual's salary to the broader public.
- The amount of time personnel are performing direct activities related to standards, compliance monitoring, enforcement, registration, training, situation awareness, and reliability assessment and performance analysis, as well as other indirect activities are being appropriately budgeted in those respective areas.

**Meeting Expenses**

- The annual membership meeting cost is being included as a meeting expense under G&A. This is \$6K and is paid for using the membership dues collected. The balance of the expense \$4K is attributed to hosting meetings at Texas RE offices for NERC, workgroup, or employee purposes.
- Travel is increasing \$27K primarily due to added Board related travel expenses included under the G&A budget (board related travel is \$38K, less \$11K in general G&A travel reallocated to direct activities).

**Operating Expenses**

- Consultants and contracts in 2010 included the MOU charges under ERCOT ISO as well as the Board related expenses. In 2011, due to the chart of accounts change with the new company accounting structure, the Board related costs are being reflected under Professional Services. The MOU costs are no longer applicable with the separation of Texas RE from ERCOT ISO.

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- Rent expenses are increasing \$135K for two reasons. First, because less non-statutory activities will be performed by Texas RE in 2010, a larger portion of the rent expense will be attributable to statutory activities. The amount of rent charged as non-statutory in 2010 that will be charged as statutory in 2011 is \$80K. The allocation of indirect expenses (which includes rent) to non-statutory activities is based upon the number of FTEs performing non-statutory activities compared to the total number of FTEs. The second reason for the increase is attributed to Texas RE procuring additional space for its current staff, future growth and meeting space. Texas RE does not have enough space for its proposed 2011 headcount. Additionally, the lease is expected to expire December 31, 2010. Therefore, there are reasons to move to new and larger space that will enable Texas RE to operate more effectively and efficiently.
  - Professional services for 2011 reflect an increase in budget of \$146K for the year. This is attributable to the director expenses previously budgeted under consultants and contracts.
  - Miscellaneous expenses are decreasing for 2011 by \$1K for employee training expenses that have been transferred to the benefits category.
  - Depreciation is decreasing in G&A due to declining book values of fixed assets recorded within in prior years.

#### Indirect Expenses

- Indirect program costs are allocated to the direct programs.

#### Other Non-Operating Expenses

- N/A

#### Fixed Asset Additions

- The allocation of fixed assets declined due to 2010 being a start-up year with significant capital purchases due to Texas RE start-up.

## General and Administrative

Funding sources and related expenses for the general and administrative section of the 2011 business plan are shown in the table below.

| <b>Statement of Activities and Capital Expenditures</b> |                       |                       |   |                       |   |
|---|-----------------------|-----------------------|---|-----------------------|---|
| <b>2010 Budget &amp; Projection, and 2011 Budget</b>    |                       |                       |   |                       |   |
| <b>General and Administrative</b>                       |                       |                       |   |                       |   |
|   | 2010<br>Budget        | 2010<br>Projection    | Variance<br>2010 Projection<br>v 2010 Budget<br>Over(Under) | 2011<br>Budget        | Variance<br>2011 Budget<br>v 2010 Budget<br>Over(Under) |
| <b>Funding</b>  |                       |                       |   |                       |   |
| <b>Texas RE Funding</b>                                 |                       |                       |   |                       |   |
| Texas RE Assessments                                    | \$ 107,947            | \$ 107,947            | \$ -  | \$ 126,859            | \$ 18,912   |
| Penalty Sanctions                                       | -                     | -                     | -   | -                     | -   |
| <b>Total Texas RE Funding</b>                           | <u>\$ 107,947</u>     | <u>\$ 107,947</u>     | <u>\$ -</u>   | <u>\$ 126,859</u>     | <u>\$ 18,912</u>  |
| Membership Dues   | 27,000                | 27,000                | -   | -                     | (27,000)  |
| Federal Grants  | -                     | -                     | -   | -                     | -   |
| Services & Software                                     | -                     | -                     | -   | -                     | -   |
| Workshops   | -                     | -                     | -   | -                     | -   |
| Interest  | 2,000                 | 2,000                 | -   | 600                   | (1,400)   |
| Miscellaneous   | -                     | -                     | -   | -                     | -   |
| <b>Total Funding</b>                                    | <u>\$ 136,947</u>     | <u>\$ 136,947</u>     | <u>\$ -</u>   | <u>\$ 127,459</u>     | <u>\$ (9,488)</u>                                       |
| <b>Expenses</b>   |                       |                       |   |                       |   |
| <b>Personnel Expenses</b>                               |                       |                       |   |                       |   |
| Salaries  | \$ 1,030,345          | \$ 938,160            | \$ (92,185)   | \$ 161,154            | \$ (869,191)  |
| Payroll Taxes   | 80,036                | 74,660                | (5,376)   | 13,056                | (66,980)  |
| Benefits  | 102,530               | 94,984                | (7,546)   | 24,663                | (77,867)  |
| Retirement Costs  | 150,918               | 142,300               | (8,617)   | 21,311                | (129,606)   |
| <b>Total Personnel Expenses</b>                         | <u>\$ 1,363,829</u>   | <u>\$ 1,250,104</u>   | <u>\$ (113,725)</u>   | <u>\$ 220,184</u>     | <u>\$ (1,143,645)</u>                                   |
| <b>Meeting Expenses</b>                                 |                       |                       |   |                       |   |
| Meetings  | \$ 3,600              | \$ 2,829              | \$ (771)  | \$ 13,100             | \$ 9,500  |
| Travel  | 17,158                | 15,284                | (1,874)   | 44,094                | 26,937  |
| Conference Calls  | -                     | -                     | -   | -                     | -   |
| <b>Total Meeting Expenses</b>                           | <u>\$ 20,758</u>      | <u>\$ 18,113</u>      | <u>\$ (2,645)</u>   | <u>\$ 57,194</u>      | <u>\$ 36,437</u>  |
| <b>Operating Expenses</b>                               |                       |                       |   |                       |   |
| Consultants & Contracts                                 | \$ 604,483            | \$ 604,483            | \$ -  | \$ 780                | \$ (603,703)  |
| Office Rent   | 363,900               | 363,900               | -   | 499,000               | 135,100   |
| Office Costs  | 28,830                | 28,830                | -   | 29,145                | 315   |
| Professional Services                                   | 75,300                | 75,300                | -   | 220,800               | 145,500   |
| Miscellaneous   | 1,350                 | 1,350                 | -   | -                     | (1,350)   |
| Depreciation  | 146,550               | 146,550               | -   | 115,952               | (30,598)  |
| <b>Total Operating Expenses</b>                         | <u>\$ 1,220,413</u>   | <u>\$ 1,220,413</u>   | <u>\$ -</u>   | <u>\$ 865,677</u>     | <u>\$ (354,735)</u>                                     |
| <b>Total Direct Expenses</b>                            | <u>\$ 2,605,000</u>   | <u>\$ 2,488,630</u>   | <u>\$ (116,370)</u>   | <u>\$ 1,143,056</u>   | <u>\$ (1,461,943)</u>                                   |
| <b>Indirect Expenses</b>                                | <u>\$ (2,605,000)</u> | <u>\$ (2,605,000)</u> | <u>\$ -</u>   | <u>\$ (1,143,056)</u> | <u>\$ 1,461,943</u>                                     |
| <b>Other Non-Operating Expenses</b>                     | <u>\$ -</u>           | <u>\$ -</u>           | <u>\$ -</u>   | <u>\$ -</u>           | <u>\$ -</u>   |
| <b>Total Expenses</b>                                   | <u>\$ -</u>           | <u>\$ (116,370)</u>   | <u>\$ (116,370)</u>   | <u>\$ -</u>           | <u>\$ (0)</u>   |
| <b>Change in Assets</b>                                 | <u>\$ 136,947</u>     | <u>\$ 253,316</u>     | <u>\$ 116,370</u>   | <u>\$ 127,459</u>     | <u>\$ (9,488)</u>                                       |
| <b>Fixed Assets</b>                                     |                       |                       |   |                       |   |
| Depreciation  | (146,550)             | (146,550)             | -   | (115,952)             | 30,598  |
| Computer & Software CapEx                               | -                     | -                     | -   | -                     | -   |
| Furniture & Fixtures CapEx                              | 317,000               | 317,000               | -   | -                     | (317,000)   |
| Equipment CapEx   | -                     | -                     | -   | -                     | -   |
| Leasehold Improvements                                  | -                     | -                     | -   | -                     | -   |
| <b>(Incr)Dec in Fixed Assets</b>                        | <u>\$ (170,450)</u>   | <u>\$ (170,450)</u>   | <u>\$ -</u>   | <u>\$ 115,952</u>     | <u>\$ 286,402</u>                                       |
| Allocation of Fixed Assets                              | \$ 170,450            | \$ 170,450            | -   | (115,952)             | (286,402)   |
| <b>Change in Fixed Assets</b>                           | <u>-</u>              | <u>-</u>              | <u>-</u>  | <u>-</u>              | <u>-</u>  |
| <b>TOTAL CHANGE IN NET ASSETS</b>                       | <u>\$ 136,947</u>     | <u>\$ 253,316</u>     | <u>\$ 116,370</u>   | <u>\$ 127,459</u>     | <u>\$ (9,488)</u>                                       |

## Legal and Regulatory

| <b>Legal and Regulatory</b><br>(in whole dollars) |                    |                    |                                |
|---|--------------------|--------------------|--------------------------------|
|   | <b>2010 Budget</b> | <b>2011 Budget</b> | <b>Increase<br/>(Decrease)</b> |
| Total FTEs  | 3.17               | 3.02               | (0.15)                         |
| Direct Expenses                                   | \$ 154,078         | \$ 398,705         | \$ 244,627                     |
| Inc(Dec) in Fixed Assets                          | \$ -               | \$ -               | \$ -                           |
| Working Capital Requirement                       | \$ -               | \$ -               | \$ -                           |

### Program Scope and Functional Description

The Legal and Regulatory area provides legal advice, counsel, and governmental and external relations support to Texas RE management, Board, and employees, on all legal and regulatory matters affecting the organization. The Legal and Regulatory group also oversees (1) corporate membership enrollment, meetings, and voting, (2) Board meetings, minutes, support, training and other activities, (3) corporate documents and transactions, (4) the work of any outside legal counsel, and (5) the prosecution of any contested enforcement matters. Expenses allocated to this area include: General Counsel, two Corporate Counsel, a Paralegal, an External Relations Liaison, and a Legal Assistant; however, a significant portion of the time expended by the Legal and Regulatory staff is expended for and allocated to core activities, including compliance monitoring, enforcement, registration, training, and technical committees.

### 2011 Key Assumptions

The Legal and Regulatory program makes the following assumptions for 2011:

- The volume of legal work required for corporate governance, personnel, NERC registration, standards development, and compliance will remain at current 2010 rates
- The number of enforcement actions will continue to increase, causing the review, advice, and possible prosecution of enforcement matters to also continue to increase
- The volume of legal work required for enforcement settlements will continue to increase, with the majority of possible violations handled through the settlement process
- The time expended on each enforcement matter will continue to remain high or slightly increase in 2011, but Texas RE will have only one large or two small contested enforcement hearings
- The volume of transactional legal work required by attorneys will slightly reduce in 2011 from the large volume required in mid-2010 for the transition of all information technology and other services from ERCOT, and the assignment of all Texas Regional Entity assets and liabilities to Texas RE, which will allow additional Legal time to be spent supporting the anticipated increased enforcement activities as well as membership activities
- There will be no significant registration disputes or hearings in 2011 (if any occur, cash reserves might need to be expended)

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- Outside counsel may assist in contested enforcement cases, but minimal, if any, outside counsel will be used for corporate, tax, or human resource matters
  - Additional Legal and Regulatory time will be spent on governmental and other external relations and communications during 2011, particularly during the 2011 Texas Legislature session, which includes Sunset Review of the PUCT and ERCOT ISO.
  - The time spent preparing materials and reports for and supporting Board and Board committee meetings will increase due to the additional Legal and Regulatory time needed for the orientation of and communications with the four new Texas RE Independent Directors
  - Legal and Regulatory will support membership registration and the Member Representatives Committee activities.
  - Texas RE Legal will continue to oversee a corporate ethics and antitrust compliance program, including new hire and annual training for all employees
  - Texas RE Legal will prepare and provide new hire and annual safety and sabotage awareness training for all employees
  - Texas RE will not be able to continue to routinely use ERCOT ISO conference rooms for its stakeholder and Board meetings at no charge.
  - Texas RE will move offices in December 2010 to office space with additional and larger conference rooms for stakeholder and Board meetings, which will require a support function to ensure physical security is maintained for visitors (through escorting visitors and maintaining security badge records)

### **2011 Goals and Key Deliverables**

The Legal and Regulatory program goals and deliverables include:

1. Provide timely useful legal advice to the CEO, the Board, and all program areas
  2. Effectively communicate information to the Board and Texas RE members
  3. Prepare and provide Board orientation training materials
  4. Oversee membership registration and maintain an accurate roster of members
  5. Provide training materials to Human Resources for new hire employee training and conduct annual employee ethics, antitrust compliance, security, and sabotage awareness training for all employees
  6. Maintain effective relationships and communications with NERC, FERC, PUCT, and other state and federal representatives
  7. Timely file all documents required by NERC or FERC
  8. Provide advice and assistance and coordinate with NERC regarding all enforcement program documents
  9. Assist with the prosecution and any appeal of contested enforcement matters
  10. Provide advice and counsel regarding disputed registration or other matters
  11. Review and provide advice regarding all regulatory filings
  12. Provide advice and oversee risk management and insurance programs
  13. Negotiate and prepare or approve all contracts
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**Funding Sources and Requirements — Explanation of Increase (Decrease)****Funding Sources**

- Indirect program costs are allocated to the direct programs.

**Personnel Expenses**

- The total number of legal FTEs is decreasing slightly year-over-year due to timekeeping and trends. The amount of time personnel are performing direct activities related to enforcement, registration and certification are being appropriately budgeted in those respective areas.
- Of the personnel expenses being budgeted in 2011, these expenses are being recorded separately from the G&A program, unlike 2010's budget. This is due to no one employee's salary being separately identifiable.
- No additional FTEs will be added to Legal and Regulatory in 2011. The additional FTE added in June 2010 as an External Relations Liaison is allocated between Legal and Regulatory and Member Forums in 2011, but additional attorney time is allocated to CMEP in 2011, offsetting the additional Legal and Regulatory work by the External Relations Liaison.

**Meeting Expenses**

- Travel expenses are increasing to accommodate more NERC related travel which will be required for training and for coordination with other Regional Entities and NERC.

**Operating Expenses**

- The consultants and contracts cost for Ethicspoint, \$1.8K are being recorded under contracts in 2011. In 2010, these expenses were recorded under miscellaneous.
- Office costs for legal and regulatory are decreasing \$3K year-over-year due to efficiencies between G&A and Legal and Regulatory.
- The professional services for external legal expenses are decreasing \$120K due to direct coding of outside counsel expenses to where the work is being performed. For each invoice received, it is evaluated to determine which activity is receiving the service and is subsequently being recorded under that activity.
- In 2010, the miscellaneous expenses category was for seminars/training costs. In 2011, employee training is being reclassified as part of employee benefits and therefore that expense is reflected in a different area.

**Indirect Expenses**

- Indirect program costs are allocated to the direct programs.

**Other Non-Operating Expenses**

- N/A

**Fixed Asset Additions**

- N/A

## Legal and Regulatory

Funding sources and related expenses for the general and administrative section of the 2011 business plan are shown in the table below.

| <b>Statement of Activities and Capital Expenditures</b> |                     |                     |   |                     |   |
|---|---------------------|---------------------|---|---------------------|---|
| <b>2010 Budget &amp; Projection, and 2011 Budget</b>    |                     |                     |   |                     |   |
| <b>Legal and Regulatory</b>                             |                     |                     |   |                     |   |
|   | 2010<br>Budget      | 2010<br>Projection  | Variance<br>2010 Projection<br>v 2010 Budget<br>Over(Under) | 2011<br>Budget      | Variance<br>2011 Budget<br>v 2010 Budget<br>Over(Under) |
| <b>Funding</b>  |                     |                     |   |                     |   |
| <b>Texas RE Funding</b>                                 |                     |                     |   |                     |   |
| Texas RE Assessments                                    | \$ -                | \$ -                | \$ -  | \$ -                | \$ -  |
| Penalty Sanctions                                       | -                   | -                   | -   | -                   | -   |
| <b>Total Texas RE Funding</b>                           | <u>\$ -</u>         | <u>\$ -</u>         | <u>\$ -</u>   | <u>\$ -</u>         | <u>\$ -</u>   |
| Membership Dues   | -                   | -                   | -   | -                   | -   |
| Federal Grants  | -                   | -                   | -   | -                   | -   |
| Services & Software                                     | -                   | -                   | -   | -                   | -   |
| Workshops   | -                   | -                   | -   | -                   | -   |
| Interest  | -                   | -                   | -   | -                   | -   |
| Miscellaneous   | -                   | -                   | -   | -                   | -   |
| <b>Total Funding</b>                                    | <u>\$ -</u>         | <u>\$ -</u>         | <u>\$ -</u>   | <u>\$ -</u>         | <u>\$ -</u>   |
| <b>Expenses</b>   |                     |                     |   |                     |   |
| <b>Personnel Expenses</b>                               |                     |                     |   |                     |   |
| Salaries  | \$ -                | \$ -                | \$ -  | \$ 274,717          | \$ 274,717  |
| Payroll Taxes   | -                   | -                   | -   | 24,410              | 24,410  |
| Benefits  | -                   | -                   | -   | 31,154              | 31,154  |
| Retirement Costs  | -                   | -                   | -   | 39,834              | 39,834  |
| <b>Total Personnel Expenses</b>                         | <u>\$ -</u>         | <u>\$ -</u>         | <u>\$ -</u>   | <u>\$ 370,114</u>   | <u>\$ 370,114</u>                                       |
| <b>Meeting Expenses</b>                                 |                     |                     |   |                     |   |
| Meetings  | \$ -                | \$ -                | \$ -  | \$ -                | \$ -  |
| Travel  | 4,478               | 3,989               | (489)   | 6,551               | 2,073   |
| Conference Calls  | -                   | -                   | -   | -                   | -   |
| <b>Total Meeting Expenses</b>                           | <u>\$ 4,478</u>     | <u>\$ 3,989</u>     | <u>\$ (489)</u>   | <u>\$ 6,551</u>     | <u>\$ 2,073</u>   |
| <b>Operating Expenses</b>                               |                     |                     |   |                     |   |
| Consultants & Contracts                                 | \$ -                | \$ -                | \$ -  | \$ 1,800            | \$ 1,800  |
| Office Rent   | -                   | -                   | -   | -                   | -   |
| Office Costs  | 5,400               | 5,400               | -   | 2,240               | (3,160)   |
| Professional Services                                   | 138,000             | 138,000             | -   | 18,000              | (120,000)   |
| Miscellaneous   | 6,200               | 6,200               | -   | -                   | (6,200)   |
| Depreciation  | -                   | -                   | -   | -                   | -   |
| <b>Total Operating Expenses</b>                         | <u>\$ 149,600</u>   | <u>\$ 149,600</u>   | <u>\$ -</u>   | <u>\$ 22,040</u>    | <u>\$ (127,560)</u>                                     |
| <b>Total Direct Expenses</b>                            | <u>\$ 154,078</u>   | <u>\$ 153,589</u>   | <u>\$ (489)</u>   | <u>\$ 398,705</u>   | <u>\$ 244,627</u>                                       |
| <b>Indirect Expenses</b>                                | <u>\$ (154,078)</u> | <u>\$ (154,078)</u> | <u>\$ -</u>   | <u>\$ (398,705)</u> | <u>\$ (244,627)</u>                                     |
| <b>Other Non-Operating Expenses</b>                     | <u>\$ -</u>         | <u>\$ -</u>         | <u>\$ -</u>   | <u>\$ -</u>         | <u>\$ -</u>   |
| <b>Total Expenses</b>                                   | <u>\$ -</u>         | <u>\$ (489)</u>     | <u>\$ (489)</u>   | <u>\$ -</u>         | <u>\$ (0)</u>   |
| <b>Change in Assets</b>                                 | <u>\$ -</u>         | <u>\$ 489</u>       | <u>\$ 489</u>   | <u>\$ -</u>         | <u>\$ 0</u>   |
| <b>Fixed Assets</b>                                     |                     |                     |   |                     |   |
| Depreciation  | -                   | -                   | -   | -                   | -   |
| Computer & Software CapEx                               | -                   | -                   | -   | -                   | -   |
| Furniture & Fixtures CapEx                              | -                   | -                   | -   | -                   | -   |
| Equipment CapEx   | -                   | -                   | -   | -                   | -   |
| Leasehold Improvements                                  | -                   | -                   | -   | -                   | -   |
| <b>(Incr)Dec in Fixed Assets</b>                        | <u>\$ -</u>         | <u>\$ -</u>         | <u>\$ -</u>   | <u>\$ -</u>         | <u>\$ -</u>   |
| Allocation of Fixed Assets                              | \$ -                | \$ -                | -   | -                   | -   |
| <b>Change in Fixed Assets</b>                           | <u>-</u>            | <u>-</u>            | <u>-</u>  | <u>-</u>            | <u>-</u>  |
| <b>TOTAL CHANGE IN NET ASSETS</b>                       | <u>\$ -</u>         | <u>\$ 489</u>       | <u>\$ 489</u>   | <u>\$ -</u>         | <u>\$ 0</u>   |

## Information Technology

| <b>Information Technology</b><br>(in whole dollars) |                    |                    |                                |
|---|--------------------|--------------------|--------------------------------|
|   | <b>2010 Budget</b> | <b>2011 Budget</b> | <b>Increase<br/>(Decrease)</b> |
| Total FTEs  | 2.48               | 2.60               | 0.12                           |
| Direct Expenses                                     | \$ 238,250         | \$ 1,033,157       | \$ 794,907                     |
| Inc(Dec) in Fixed Assets                            | \$ 654,263         | \$ (48,383)        | \$ (702,646)                   |
| Working Capital Requirement                         | \$ -               | \$ -               | \$ -                           |

### Program Scope and Functional Description

Texas RE's IT program provides a broad range of information technology support to Texas RE, including the following: management of IT operations; IT-related vendor management; strategy; planning, development, and deployment of enterprise systems and computer applications/systems; and training, research, and planning for improvement and efficiency.

Management of IT operations includes administration and maintenance of hardware (laptops, phones, servers, and peripherals), systems (networks and databases), software, and applications such as the Texas RE Portal, Compliance Issue Tracking System, public Web site, regional standards tracking Web tool, and document management system. Texas RE's approach is to keep its in-house IT staff small and outsource most maintenance, services, and new development. To ensure that applications and hardware are well maintained, service levels remain high, and costs are controlled, IT staff manages multiple IT vendors, oversees day-to-day support and administration, and plans for future requirements.

Texas RE IT staff will continue several operational initiatives in 2011 in support of the IT infrastructure implemented in 2010. These initiatives include identifying and fulfilling technology needs to reinforce and improve operations; refining IT policies and procedures to make operations more efficient, secure, and prepared for eventualities; and providing additional employee training on IT best practices. Texas RE IT staff also foresees that the early part of 2011 will be devoted to executing carry-over IT work related to Texas RE's late 2010 relocation to a larger office space.

Although much of 2011 will be focused on operations, Texas RE IT staff will also work with Texas RE management to update its long-term technology strategy. Strategic focus will be on hardening security; increasing Texas RE efficiency and meeting the needs of the mobile workforce; and planning for system integration and communications, both internal and external (NERC and other Regional Entities).

### 2011 Key Assumptions

- Texas RE will continue to outsource many key IT services (server hosting and related services, networking, electronic security, deskside support, email, etc.) to third-party vendors. A small Texas RE staff will oversee the vendors and the related policies, service, performance, and costs.

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- Texas RE will not increase IT FTEs but will meet the need for highly specialized work or work increases by augmenting staff with temporary contractors, used mainly for development or project work. IT employees will cross-train to serve as backups for each other.
  - Texas RE will be a member of the Regional Entity Consortium User Group to collaborate on and share the development costs for the portal with other Regional Entities and NERC.
  - Texas RE will have transitioned the non-statutory work performed on behalf of the PUCT to another entity selected by the PUCT effective December 31, 2010; and the IT program will not support data required for monitoring the ERCOT Protocols.
  - Texas RE will relocate to a larger office space in December 2010.

### 2011 Goals and Key Deliverables

IT objectives for 2011 include the following:

1. Manage current IT operations, including the application, software, and service portfolio; budget; infrastructure; service support (employee access, service desk/service requests, events, incidents, problems, changes, releases, configuration); service design and delivery (service level, risk, capacity, availability, continuity, information security, compliance, architecture); service transition; demand; and hardware and network security.
2. Monitor and update long-term strategy in response to business needs, including regularly meeting with managers and soliciting input from staff.
3. Continue to research and develop and/or purchase software and hardware to respond to immediate business needs and industry changes.
4. Manage vendors to ensure quality of services and applications and responsiveness to Texas RE needs.
5. Engineer project requirements, and prioritize and oversee IT projects
6. Work effectively with other Regional Entities and NERC to ensure that Texas RE remains consistent.
7. Conduct annual evaluation of technologies and vendors for functionality, performance, availability, and cost-effectiveness.
8. Coordinate with CIP staff to conduct annual evaluation of vendors to ensure adherence to Texas RE security requirements.
9. Create baseline metrics for Texas RE usage (storage, networks, support requests, etc.) for the purpose of scaling services appropriately.
10. Update IT operating policies and procedures and implement new ones in response to IT best practices training and “lessons learned” after a year of full-scale operations.
11. Coordinate with CIP staff to assess and if necessary update IT security requirements in response to industry changes.
12. Test the IT plan for disaster response and recovery.
13. Train and support Texas RE staff on software and applications.
14. Train IT staff on best operational practices and ensure IT staff members are trained in multiple areas of IT operations.

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

- Indirect program costs are allocated to the direct programs.

**Personnel Expenses**

- The total number of IT FTEs is slightly increasing year-over-year due to timekeeping and trends. The amount of time personnel are performing direct activities related to enforcement, registration and certification are being appropriately budgeted in those respective areas.
- Personnel expenses are being recorded separately from the G&A program. This is due to no one employee's salary being separately identifiable.

**Meeting Expenses**

- Anticipate hosting one CUG meeting at Texas RE's offices. This is resulting in meeting costs of \$2K for 2011.
- Travel is decreasing slightly year-over-year due to Texas RE hosting at least 1 meeting at its offices, this will eliminate at least one trip from 2010.
- Conference calls expense of \$12K is related to online conference calling services being procured for Texas RE staff use. This was previously incurred under the MOU prior to 2011.

**Operating Expenses**

- Consultants and contracts expense is increasing \$331K year-over-year. The 2011 budget reflects the full year of managed hosting and managed services. In 2010, that budget was reflected under professional services. The expenses are approximately \$100K higher than 2010. This is due to the finalization of the IT set-up, which was not completed when the 2010 budget was created and approved.
- Office costs are increasing \$173K to accommodate the internet/telephone expenses previously reflected under the MOU in the G&A activity. Reflects increases for hosting costs, managed services costs and support services, all of which were significantly higher than 2010's budget, which was an unknown start-up year.
- In 2010, miscellaneous expenses included seminar/employee training costs. In 2011, training is being reclassified as part of employee benefits and therefore that expense is reflected in a different area.
- Depreciation expense is generally increasing \$131K to accommodate the transfer of IT assets from the G&A, and Finance programs as well as the increased base of assets associated with the new Texas RE.

**Indirect Expenses**

- Indirect program costs are allocated to the direct programs.

**Other Non-Operating Expenses**

- N/A

**Fixed Asset Additions**

- The allocation of fixed assets declined due to 2010 being a start-up year with significant capital purchases due to Texas RE start-up.

## Information Technology

Funding sources and related expenses for the information technology section of the 2011 business plan are shown in the table below.

| <b>Statement of Activities and Capital Expenditures</b> |                     |                     |   |                       |   |
|---|---------------------|---------------------|---|-----------------------|---|
| <b>2010 Budget &amp; Projection, and 2011 Budget</b>    |                     |                     |   |                       |   |
| <b>Information Technology</b>                           |                     |                     |   |                       |   |
|   | 2010<br>Budget      | 2010<br>Projection  | Variance<br>2010 Projection<br>v 2010 Budget<br>Over(Under) | 2011<br>Budget        | Variance<br>2011 Budget<br>v 2010 Budget<br>Over(Under) |
| <b>Funding</b>  |                     |                     |   |                       |   |
| <b>Texas RE Funding</b>                                 |                     |                     |   |                       |   |
| Texas RE Assessments                                    | \$ -                | \$ -                | \$ -  | \$ -                  | \$ -  |
| Penalty Sanctions                                       | -                   | -                   | -   | -                     | -   |
| <b>Total Texas RE Funding</b>                           | <b>\$ -</b>         | <b>\$ -</b>         | <b>\$ -</b>   | <b>\$ -</b>           | <b>\$ -</b>   |
| Membership Dues   | -                   | -                   | -   | -                     | -   |
| Federal Grants  | -                   | -                   | -   | -                     | -   |
| Services & Software                                     | -                   | -                   | -   | -                     | -   |
| Workshops   | -                   | -                   | -   | -                     | -   |
| Interest  | -                   | -                   | -   | -                     | -   |
| Miscellaneous   | -                   | -                   | -   | -                     | -   |
| <b>Total Funding</b>                                    | <b>\$ -</b>         | <b>\$ -</b>         | <b>\$ -</b>   | <b>\$ -</b>           | <b>\$ -</b>   |
| <b>Expenses</b>   |                     |                     |   |                       |   |
| <b>Personnel Expenses</b>                               |                     |                     |   |                       |   |
| Salaries  | \$ -                | \$ -                | \$ -  | \$ 267,102            | \$ 267,102  |
| Payroll Taxes   | -                   | -                   | -   | 23,733                | 23,733  |
| Benefits  | -                   | -                   | -   | 37,535                | 37,535  |
| Retirement Costs  | -                   | -                   | -   | 38,730                | 38,730  |
| <b>Total Personnel Expenses</b>                         | <b>\$ -</b>         | <b>\$ -</b>         | <b>\$ -</b>   | <b>\$ 367,100</b>     | <b>\$ 367,100</b>                                       |
| <b>Meeting Expenses</b>                                 |                     |                     |   |                       |   |
| Meetings  | \$ -                | \$ -                | \$ -  | \$ 2,000              | \$ 2,000  |
| Travel  | 4,057               | 3,614               | (443)   | 3,805                 | (252)   |
| Conference Calls  | -                   | -                   | -   | 12,000                | 12,000  |
| <b>Total Meeting Expenses</b>                           | <b>\$ 4,057</b>     | <b>\$ 3,614</b>     | <b>\$ (443)</b>   | <b>\$ 17,805</b>      | <b>\$ 13,748</b>  |
| <b>Operating Expenses</b>                               |                     |                     |   |                       |   |
| Consultants & Contracts                                 | \$ -                | \$ -                | \$ -  | \$ 330,634            | \$ 330,634  |
| Office Rent   | -                   | -                   | -   | -                     | -   |
| Office Costs  | 960                 | 960                 | -   | 174,235               | 173,275   |
| Professional Services                                   | 214,733             | 457,049             | 242,316   | -                     | (214,733)   |
| Miscellaneous   | 6,500               | 6,500               | -   | -                     | (6,500)   |
| Depreciation  | 12,000              | 56,000              | 44,000  | 143,383               | 131,383   |
| <b>Total Operating Expenses</b>                         | <b>\$ 234,193</b>   | <b>\$ 520,509</b>   | <b>\$ 286,316</b>   | <b>\$ 648,252</b>     | <b>\$ 414,059</b>                                       |
| <b>Total Direct Expenses</b>                            | <b>\$ 238,250</b>   | <b>\$ 524,123</b>   | <b>\$ 285,873</b>   | <b>\$ 1,033,157</b>   | <b>\$ 794,907</b>                                       |
| <b>Indirect Expenses</b>                                | <b>\$ (238,250)</b> | <b>\$ (238,250)</b> | <b>\$ -</b>   | <b>\$ (1,033,157)</b> | <b>\$ (794,907)</b>                                     |
| <b>Other Non-Operating Expenses</b>                     | <b>\$ -</b>         | <b>\$ -</b>         | <b>\$ -</b>   | <b>\$ -</b>           | <b>\$ -</b>   |
| <b>Total Expenses</b>                                   | <b>\$ -</b>         | <b>\$ 285,873</b>   | <b>\$ 285,873</b>   | <b>\$ -</b>           | <b>\$ -</b>   |
| <b>Change in Assets</b>                                 | <b>\$ -</b>         | <b>\$ (285,873)</b> | <b>\$ (285,873)</b>   | <b>\$ -</b>           | <b>\$ -</b>   |
| <b>Fixed Assets</b>                                     |                     |                     |   |                       |   |
| Depreciation  | (12,000)            | (12,000)            | (44,000)  | (143,383)             | (131,383)   |
| Computer & Software CapEx                               | 666,263             | 889,743             | 223,480   | 95,000                | (571,263)   |
| Furniture & Fixtures CapEx                              | -                   | -                   | -   | -                     | -   |
| Equipment CapEx   | -                   | -                   | -   | -                     | -   |
| Leasehold Improvements                                  | -                   | -                   | -   | -                     | -   |
| <b>(Incr)Dec in Fixed Assets</b>                        | <b>\$ (654,263)</b> | <b>\$ (877,743)</b> | <b>\$ (179,480)</b>   | <b>\$ 48,383</b>      | <b>\$ 702,646</b>                                       |
| Allocation of Fixed Assets                              | \$ 654,263          | \$ 654,263          | -   | (48,383)              | \$ (702,646)  |
| <b>Change in Fixed Assets</b>                           | <b>-</b>            | <b>(223,480)</b>    | <b>(179,480)</b>  | <b>-</b>              | <b>-</b>  |
| <b>TOTAL CHANGE IN NET ASSETS</b>                       | <b>\$ -</b>         | <b>\$ (509,353)</b> | <b>\$ (465,353)</b>   | <b>\$ -</b>           | <b>\$ -</b>   |

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## Human Resources

| <b>Human Resources</b><br>(in whole dollars) |             |             |                        |
|--|-------------|-------------|------------------------|
|  | 2010 Budget | 2011 Budget | Increase<br>(Decrease) |
| Total FTEs                                   | 0.85        | 1.03        | 0.18                   |
| Direct Expenses                              | \$ 121,720  | \$ 9,123    | \$ (112,597)           |
| Inc(Dec) in Fixed Assets                     | \$ -        | \$ -        | \$ -                   |
| Working Capital Requirement                  | \$ -        | \$ -        | \$ -                   |

### Program Scope and Functional Description

The Texas RE Human Resources program provides a broad range of support to all Texas RE employees. The HR function consists of delivery and enforcement of all personnel and employment related policies, procedures, and documents. HR is responsible for administering all employee benefits programs, recruiting, the new hire process, orientation, partnering with managers to develop and counsel employees, and maintaining competitive market analysis on all Texas RE positions. HR will also maintain the HRIS and the Payroll Master File and ensure Department of Labor compliance with all federal and state requirements. HR will continue to develop and enhance the culture of Texas RE as it grows, an effort to improve retention, maintain low employee turnover, and attract top talent for new positions. HR will minimize risk to the organization by ensuring that employees are treated in a fair and consistent manner and that the Texas RE employment policies are followed on a regular basis.

### 2011 Key Assumptions

- Texas RE Human Resources program will consist of 1 position, the HR Manager.
- HR will begin to enhance and improve various policies, procedures, systems, and programs which were originally put into place for “start-up” and necessary based on timing of the spin-off event.
- HR will begin to analyze key HRIS data for purposes of being a strategy partner to management.

### 2011 Goals and Key Deliverables

- Reduce the length of time of the recruitment process (from open requisition to offer letter) by at least 20%
- Enhance employee benefits plans
- Enhance and improve available employee self-service features within HRIS
- Improve the performance review process for all employees

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**Funding Sources and Requirements — Explanation of Increase (Decrease)****Funding Sources (Other than ERO Assessments)**

- Indirect program costs are allocated to the direct programs.

**Personnel Expenses**

- Personnel expenses are being recorded in the G&A program. This is due to one employee's salary being separately identifiable.

**Meeting Expenses**

- Travel is being budgeted to accommodate two HR related training sessions.

**Operating Expenses**

- Consultants and contracts expense previously budgeted under professional services in 2010. In 2011, there will not be start-up costs to be paid and therefore expenses are reduced. Overall, the expenses are \$114K less than the prior year.
- Professional services reflects a reduction in 2011 due to reclassification of expense as mentioned above, as well as the elimination of start-up costs / benefits administration costs budgeted in 2010, that will not be incurred in 2011. However, there is \$8K budgeted for legal support related to specific HR related areas.

**Indirect Expenses**

- Indirect program costs are allocated to the direct programs.

**Other Non-Operating Expenses**

- N/A

**Fixed Asset Additions**

- N/A

## Human Resources

Funding sources and related expenses for the human resources section of the 2011 business plan are shown in the table below.

| <b>Statement of Activities and Capital Expenditures</b> |                     |                     |   |                   |   |
|---|---------------------|---------------------|---|-------------------|---|
| <b>2010 Budget &amp; Projection, and 2011 Budget</b>    |                     |                     |   |                   |   |
| <b>Human Resources</b>                                  |                     |                     |   |                   |   |
|   | 2010<br>Budget      | 2010<br>Projection  | Variance<br>2010 Projection<br>v 2010 Budget<br>Over(Under) | 2011<br>Budget    | Variance<br>2011 Budget<br>v 2010 Budget<br>Over(Under) |
| <b>Funding</b>  |                     |                     |   |                   |   |
| <b>Texas RE Funding</b>                                 |                     |                     |   |                   |   |
| Texas RE Assessments                                    | \$ -                | \$ -                | \$ -  | \$ -              | \$ -  |
| Penalty Sanctions                                       | -                   | -                   | -   | -                 | -   |
| <b>Total Texas RE Funding</b>                           | <u>\$ -</u>         | <u>\$ -</u>         | <u>\$ -</u>   | <u>\$ -</u>       | <u>\$ -</u>   |
| Membership Dues   | -                   | -                   | -   | -                 | -   |
| Federal Grants  | -                   | -                   | -   | -                 | -   |
| Services & Software                                     | -                   | -                   | -   | -                 | -   |
| Workshops   | -                   | -                   | -   | -                 | -   |
| Interest  | -                   | -                   | -   | -                 | -   |
| Miscellaneous   | -                   | -                   | -   | -                 | -   |
| <b>Total Funding</b>                                    | <u>\$ -</u>         | <u>\$ -</u>         | <u>\$ -</u>   | <u>\$ -</u>       | <u>\$ -</u>   |
| <b>Expenses</b>   |                     |                     |   |                   |   |
| <b>Personnel Expenses</b>                               |                     |                     |   |                   |   |
| Salaries  | \$ -                | \$ -                | \$ -  | \$ -              | \$ -  |
| Payroll Taxes   | -                   | -                   | -   | -                 | -   |
| Benefits  | -                   | -                   | -   | -                 | -   |
| Retirement Costs  | -                   | -                   | -   | -                 | -   |
| <b>Total Personnel Expenses</b>                         | <u>\$ -</u>         | <u>\$ -</u>         | <u>\$ -</u>   | <u>\$ -</u>       | <u>\$ -</u>   |
| <b>Meeting Expenses</b>                                 |                     |                     |   |                   |   |
| Meetings  | \$ -                | \$ -                | \$ -  | \$ -              | \$ -  |
| Travel  | -                   | -                   | -   | 1,363             | 1,363   |
| Conference Calls  | -                   | -                   | -   | -                 | -   |
| <b>Total Meeting Expenses</b>                           | <u>\$ -</u>         | <u>\$ -</u>         | <u>\$ -</u>   | <u>\$ 1,363</u>   | <u>\$ 1,363</u>   |
| <b>Operating Expenses</b>                               |                     |                     |   |                   |   |
| Consultants & Contracts                                 | \$ -                | \$ -                | \$ -  | \$ -              | \$ -  |
| Office Rent   | -                   | -                   | -   | -                 | -   |
| Office Costs  | -                   | -                   | -   | 260               | 260   |
| Professional Services                                   | 121,720             | 121,720             | -   | 7,500             | (114,220)   |
| Miscellaneous   | -                   | -                   | -   | -                 | -   |
| Depreciation  | -                   | -                   | -   | -                 | -   |
| <b>Total Operating Expenses</b>                         | <u>\$ 121,720</u>   | <u>\$ 121,720</u>   | <u>\$ -</u>   | <u>\$ 7,760</u>   | <u>\$ (113,960)</u>                                     |
| <b>Total Direct Expenses</b>                            | <u>\$ 121,720</u>   | <u>\$ 121,720</u>   | <u>\$ -</u>   | <u>\$ 9,123</u>   | <u>\$ (112,597)</u>                                     |
| <b>Indirect Expenses</b>                                | <u>\$ (121,720)</u> | <u>\$ (121,720)</u> | <u>\$ -</u>   | <u>\$ (9,123)</u> | <u>\$ 112,597</u>                                       |
| <b>Other Non-Operating Expenses</b>                     | <u>\$ -</u>         | <u>\$ -</u>         | <u>\$ -</u>   | <u>\$ -</u>       | <u>\$ -</u>   |
| <b>Total Expenses</b>                                   | <u>\$ -</u>         | <u>\$ (0)</u>       | <u>\$ -</u>   | <u>\$ -</u>       | <u>\$ 0</u>   |
| <b>Change in Assets</b>                                 | <u>\$ -</u>         | <u>\$ 0</u>         | <u>\$ -</u>   | <u>\$ -</u>       | <u>\$ (0)</u>   |
| <b>Fixed Assets</b>                                     |                     |                     |   |                   |   |
| Depreciation  | -                   | -                   | -   | -                 | -   |
| Computer & Software CapEx                               | -                   | -                   | -   | -                 | -   |
| Furniture & Fixtures CapEx                              | -                   | -                   | -   | -                 | -   |
| Equipment CapEx   | -                   | -                   | -   | -                 | -   |
| Leasehold Improvements                                  | -                   | -                   | -   | -                 | -   |
| <b>(Incr)Dec in Fixed Assets</b>                        | <u>\$ -</u>         | <u>\$ -</u>         | <u>\$ -</u>   | <u>\$ -</u>       | <u>\$ -</u>   |
| Allocation of Fixed Assets                              | \$ -                | \$ -                | \$ -  | -                 | -   |
| <b>Change in Fixed Assets</b>                           | <u>-</u>            | <u>-</u>            | <u>-</u>  | <u>-</u>          | <u>-</u>  |
| <b>TOTAL CHANGE IN NET ASSETS</b>                       | <u>\$ -</u>         | <u>\$ 0</u>         | <u>\$ -</u>   | <u>\$ -</u>       | <u>\$ (0)</u>   |

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**Finance and Accounting**

| <b>Finance and Accounting</b><br>(in whole dollars) |             |             |                        |
|---|-------------|-------------|------------------------|
|   | 2010 Budget | 2011 Budget | Increase<br>(Decrease) |
| Total FTEs  | 1.70        | 2.00        | 0.30                   |
| Direct Expenses                                     | \$ 232,736  | \$ 473,858  | \$ 241,121             |
| Inc(Dec) in Fixed Assets                            | \$ 41,000   | \$ -        | \$ (41,000)            |
| Working Capital Requirement                         | \$ -        | \$ -        | \$ -                   |

**Program Scope and Functional Description**

The Finance and Accounting staff will provide a broad range of support to Texas RE management and personnel. Finance and Accounting staff are required to formulate and monitor Texas RE budget for controlling funds to implement 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 and Accounting staff will guide the annual budget process for the Texas RE and measure performance of all key aspects of Texas RE to ensure performance matches or exceeds expectations, including the analysis of trends affecting budget needs and developing periodic financial reports. Texas RE's monthly general ledger close activities will be managed by Texas RE Finance and Accounting personnel. The Finance and Accounting staff are required to ensure Texas RE appropriately accounts for all statutory and non-statutory expenses and revenue. This will involve generating monthly financial reports that will be communicated to the CEO, the program managers and the board.

Texas RE Finance and Accounting will also direct the financial affairs of the organization and prepare financial analyses of operations, including interim and final financial statements with supporting schedules, for the guidance of management. Additionally, Texas RE Finance and Accounting will have responsibility for the company's financial plans and policies, its accounting practices, the conduct of its relationships with banking institutions, the maintenance of its fiscal records, and the preparation of financial reports. Texas RE Finance and Accounting will be centrally responsible for general accounting, accounts payable, accounts receivable, payroll processing, fixed asset accounting, cost accounting, and budgetary controls.

The Finance and Accounting staff are required to generate quarterly and annual financial reports to be filed with NERC as well as other ad hoc reporting that may be required.

**2011 Key Assumptions**

- Non-statutory activities are not requiring as many resources from Finance as they once did; therefore, there are additional resources available to perform required statutory activities and that adjustment is expected to occur in 2011.
- The volume of transactions will approximate what has been processed in 2010.
- There will be no accounting system changes.

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- We will continue to outsource the payroll processing and expense reporting functions.
  - There will be no additional banking requirements.

**2011 Goals and Key Deliverables**

1. Ensure that the accounting, finance, and budgeting functions are appropriately managed at Texas RE.
2. Keep the CEO informed of budget, expenditures, and total operational financial performance.
3. Continue to provide financial reports to the Board.
4. Ensure that Texas RE receives an unqualified opinion on the audit of the financial statements.
5. Continue to support and coordinate with NERC finance staff to meet quarterly and annual reporting requirements as well as any additional financial reports.
6. Provide workflow and financial reports to Texas RE management and adjust as required to better enable Texas RE staff operational success.

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

- Indirect program costs are allocated to the direct programs.

**Personnel Expenses**

- Personnel expenses are being recorded separately from the G&A program. This is due to no one employee's salary being separately identifiable.

**Meeting Expenses**

- Travel costs are decreasing year-over-year due to use of conference calls for REBG meetings.

**Operating Expenses**

- Consultants and contracts reflect the annual maintenance costs for the accounting system. The net effect is an \$8K increase in 2011, over 2010, which was a partial start-up year.
- Office costs are increasing \$2K in 2011 due to the need to purchase check stock, postage and forms.
- Professional services are reflecting reductions from 2010 related to lower pricing obtained for accounting support services. The expected decrease for 2011 is \$8K.
- The miscellaneous category was related to banking and cash management start-up costs that will no longer be necessary in 2011. This reduction in expense is approximately \$13K.

**Indirect Expenses**

- Indirect program costs are allocated to the direct programs.

**Other Non-Operating Expenses**

- N/A

**Fixed Asset Additions**

- N/A

## Finance and Accounting

Funding sources and related expenses for the accounting and finance section of the 2011 business plan are shown in the table below.

| <b>Statement of Activities and Capital Expenditures</b> |                     |                     |   |                     |   |
|---|---------------------|---------------------|---|---------------------|---|
| <b>2010 Budget &amp; Projection, and 2011 Budget</b>    |                     |                     |   |                     |   |
| <b>Finance and Accounting</b>                           |                     |                     |   |                     |   |
|   | 2010<br>Budget      | 2010<br>Projection  | Variance<br>2010 Projection<br>v 2010 Budget<br>Over(Under) | 2011<br>Budget      | Variance<br>2011 Budget<br>v 2010 Budget<br>Over(Under) |
| <b>Funding</b>  |                     |                     |   |                     |   |
| <b>Texas RE Funding</b>                                 |                     |                     |   |                     |   |
| Texas RE Assessments                                    | \$ -                | \$ -                | \$ -  | \$ -                | \$ -  |
| Penalty Sanctions                                       | -                   | -                   | -   | -                   | -   |
| <b>Total Texas RE Funding</b>                           | <u>\$ -</u>         | <u>\$ -</u>         | <u>\$ -</u>   | <u>\$ -</u>         | <u>\$ -</u>   |
| Membership Dues   | -                   | -                   | -   | -                   | -   |
| Federal Grants  | -                   | -                   | -   | -                   | -   |
| Services & Software                                     | -                   | -                   | -   | -                   | -   |
| Workshops   | -                   | -                   | -   | -                   | -   |
| Interest  | -                   | -                   | -   | -                   | -   |
| Miscellaneous   | -                   | -                   | -   | -                   | -   |
| <b>Total Funding</b>                                    | <u>\$ -</u>         | <u>\$ -</u>         | <u>\$ -</u>   | <u>\$ -</u>         | <u>\$ -</u>   |
| <b>Expenses</b>   |                     |                     |   |                     |   |
| <b>Personnel Expenses</b>                               |                     |                     |   |                     |   |
| Salaries  | \$ -                | \$ -                | \$ -  | \$ 187,145          | \$ 187,145  |
| Payroll Taxes   | -                   | -                   | -   | 16,614              | 16,614  |
| Benefits  | -                   | -                   | -   | 20,938              | 20,938  |
| Retirement Costs  | -                   | -                   | -   | 27,136              | 27,136  |
| <b>Total Personnel Expenses</b>                         | <u>\$ -</u>         | <u>\$ -</u>         | <u>\$ -</u>   | <u>\$ 251,833</u>   | <u>\$ 251,833</u>                                       |
| <b>Meeting Expenses</b>                                 |                     |                     |   |                     |   |
| Meetings  | \$ -                | \$ -                | \$ -  | \$ -                | \$ -  |
| Travel  | 2,145               | 1,911               | (234)   | 1,619               | (526)   |
| Conference Calls  | -                   | -                   | -   | -                   | -   |
| <b>Total Meeting Expenses</b>                           | <u>\$ 2,145</u>     | <u>\$ 1,911</u>     | <u>\$ (234)</u>   | <u>\$ 1,619</u>     | <u>\$ (526)</u>   |
| <b>Operating Expenses</b>                               |                     |                     |   |                     |   |
| Consultants & Contracts                                 | \$ -                | \$ -                | \$ -  | \$ 8,000            | \$ 8,000  |
| Office Rent   | -                   | -                   | -   | -                   | -   |
| Office Costs  | 880                 | 880                 | -   | 3,205               | 2,325   |
| Professional Services                                   | 217,010             | 217,010             | -   | 209,200             | (7,810)   |
| Miscellaneous   | 12,701              | 12,701              | -   | -                   | (12,701)  |
| Depreciation  | -                   | -                   | -   | -                   | -   |
| <b>Total Operating Expenses</b>                         | <u>\$ 230,591</u>   | <u>\$ 230,591</u>   | <u>\$ -</u>   | <u>\$ 220,405</u>   | <u>\$ (10,186)</u>                                      |
| <b>Total Direct Expenses</b>                            | <u>\$ 232,736</u>   | <u>\$ 232,502</u>   | <u>\$ (234)</u>   | <u>\$ 473,858</u>   | <u>\$ 241,121</u>                                       |
| <b>Indirect Expenses</b>                                | <u>\$ (232,736)</u> | <u>\$ (232,736)</u> | <u>\$ -</u>   | <u>\$ (473,858)</u> | <u>\$ (241,121)</u>                                     |
| <b>Other Non-Operating Expenses</b>                     | <u>\$ -</u>         | <u>\$ -</u>         | <u>\$ -</u>   | <u>\$ -</u>         | <u>\$ -</u>   |
| <b>Total Expenses</b>                                   | <u>\$ -</u>         | <u>\$ (234)</u>     | <u>\$ (234)</u>   | <u>\$ -</u>         | <u>\$ (0)</u>   |
| <b>Change in Assets</b>                                 | <u>\$ -</u>         | <u>\$ 234</u>       | <u>\$ 234</u>   | <u>\$ -</u>         | <u>\$ 0</u>   |
| <b>Fixed Assets</b>                                     |                     |                     |   |                     |   |
| Depreciation  | -                   | -                   | -   | -                   | -   |
| Computer & Software CapEx                               | 41,000              | 41,000              | -   | -                   | (41,000)  |
| Furniture & Fixtures CapEx                              | -                   | -                   | -   | -                   | -   |
| Equipment CapEx   | -                   | -                   | -   | -                   | -   |
| Leasehold Improvements                                  | -                   | -                   | -   | -                   | -   |
| <b>(Incr)Dec in Fixed Assets</b>                        | <u>\$ (41,000)</u>  | <u>\$ (41,000)</u>  | <u>\$ -</u>   | <u>\$ -</u>         | <u>\$ 41,000</u>  |
| Allocation of Fixed Assets                              | \$ 41,000           | \$ 41,000           | -   | -                   | (41,000)  |
| <b>Change in Fixed Assets</b>                           | <u>-</u>            | <u>-</u>            | <u>-</u>  | <u>-</u>            | <u>-</u>  |
| <b>TOTAL CHANGE IN NET ASSETS</b>                       | <u>\$ -</u>         | <u>\$ 234</u>       | <u>\$ 234</u>   | <u>\$ -</u>         | <u>\$ 0</u>   |

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## Section B – Supplemental Financial Information

### 2011 Business Plan and Budget

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## Section B — Supplemental Financial Information

### Reserve Balance

Table B-1

| <b>Working Capital Reserve Analysis 2010-2011</b>                                   |                  |
|---|------------------|
| <b>STATUTORY</b>  |                  |
| <b>Beginning Working Capital Reserve (Deficit), December 31, 2009</b>               | 1,736,988        |
| Less: Penalty sanctions to be used as offset to 2011 assessments <sup>1</sup>       | (20,000)         |
| Plus: 2010 Texas RE Funding (from LSEs or designees)                                | 9,144,340        |
| Plus: 2010 Other funding sources  | 209,000          |
| Less: 2010 Projected expenses & capital expenditures                                | (9,242,228)      |
| <b>Projected Working Capital Reserve (Deficit), December 31, 2010</b>               | <b>1,828,099</b> |
| <b>Desired Working Capital Reserve, December 31, 2011</b> <sup>2</sup>              | 1,955,558        |
| Less: Projected Working Capital Reserve, December 31, 2010                          | (1,828,099)      |
| <b>Increase(decrease) in assessments to achieve desired Working Capital Reserve</b> | <b>127,459</b>   |
| 2011 Expenses and Capital Expenditures  | 9,363,964        |
| Less: Penalty Sanctions <sup>1</sup>  | (20,000)         |
| Less: Other Funding Sources   | (243,600)        |
| Adjustment to achieve desired Working Capital Reserve                               | 127,459          |
| <b>2011 Texas RE Assessment</b>   | <b>9,227,823</b> |

<sup>1</sup> Represents collections on or prior to June 30, 2010. See page 66 for full disclosure.

<sup>2</sup> On June 30, 2010, the Texas RE board approved a desired working capital reserve.

### Explanation of Changes in Reserve Policy from Prior Years

- Texas RE is maintaining a 75-day cash reserve in 2011. This reserve benchmark is the same as it was in 2010; however, because the budget dollars are increasing, so too must the dollar amount of the reserve.

### Breakdown by Statement of Activity Sections

The following detailed schedules are in support of Table 1, page 13, of the 2011 RE Business Plan and Budget. All significant variances have been disclosed by program area in the preceding pages.

### Penalty Sanctions

Penalty monies received prior to June 30, 2010 are to be used to offset assessments in the 2011 Budget, as documented in the NERC Policy – ACCOUNTING, FINANCIAL STATEMENT AND BUDGETARY TREATMENT OF PENALTIES IMPOSED AND RECEIVED FOR VIOLATIONS OF RELIABILITY STANDARD. Penalty monies received from July 1, 2010 through June 30, 2011 will be used to offset assessments in the 2012 Budget.

All penalties received prior to June 30, 2010 are detailed below.

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 Situation 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-2**

| Penalty Sanctions Received On or Prior to June 30, 2010 | Date Received | Amount Received |
|---|---------------|-----------------|
|   | 8/26/09       | 5,000           |
|   | 9/4/09        | 5,000           |
|   | 6/3/10        | 10,000          |
| <b>Total Penalties Received</b>                         |               | \$ 20,000       |

## Supplemental Funding

Table B-3

| Outside Funding Breakdown By Program                              | Budget<br>2010    | Projection<br>2010 | Budget<br>2011    | Variance<br>2011 Budget v<br>2010 Budget |
|---|-------------------|--------------------|-------------------|--|
| <b>Reliability Standards</b>                                      |                   |                    |                   |  |
| Total   | \$ -              | \$ -               | \$ -              | \$ -                                     |
| <b>Compliance Monitoring, Enforcement &amp; Org. Registration</b> |                   |                    |                   |  |
| Workshops   | \$ -              | \$ -               | \$ -              | \$ -                                     |
| Total   | \$ -              | \$ -               | \$ -              | \$ -                                     |
| <b>Reliability Assessment and Performance Analysis</b>            |                   |                    |                   |  |
| Miscellaneous   | \$ -              | \$ -               | \$ -              | \$ -                                     |
| Federal Grants  | -                 | -                  | -                 | -  |
| Total   | \$ -              | \$ -               | \$ -              | \$ -                                     |
| <b>Training and Education</b>                                     |                   |                    |                   |  |
| Workshops   | \$ 180,000        | \$ 180,000         | \$ 215,500        | \$ 35,500                                |
| Total   | \$ 180,000        | \$ 180,000         | \$ 215,500        | \$ 35,500                                |
| <b>Situation Awareness and Infrastructure Security</b>            |                   |                    |                   |  |
| Federal Grants  | \$ -              | \$ -               | \$ -              | \$ -                                     |
| Total   | \$ -              | \$ -               | \$ -              | \$ -                                     |
| <b>Technical Committees and Member Forums</b>                     |                   |                    |                   |  |
| Total   | \$ -              | \$ -               | \$ -              | \$ -                                     |
| <b>General and Administrative</b>                                 |                   |                    |                   |  |
| Membership Dues   | \$ 27,000         | \$ 27,000          | \$ 27,500         | \$ 500                                   |
| Interest Income   | 2,000             | 2,000              | 600               | (1,400)                                  |
| Total   | \$ 29,000         | \$ 29,000          | \$ 28,100         | \$ (900)                                 |
| <b>Total Outside Funding</b>                                      | <b>\$ 209,000</b> | <b>\$ 209,000</b>  | <b>\$ 243,600</b> | <b>\$ 34,600</b>                         |

## Explanation of Significant Variances – 2011 Budget versus 2010 Budget

1. Texas RE is increasing the number of workshops and will be charging workshop attendees for the direct expenses associated with conducting those workshops.

## Personnel Expenses

Table B-4

| Personnel Expenses                | Budget<br>2010      | Projection<br>2010  | Budget<br>2011      | Variance<br>2011 Budget v<br>2010 Budget | Variance %  |
|-----------------------------------|---------------------|---------------------|---------------------|--|-------------|
| <b>Salaries</b>                   |                     |                     |                     |  |             |
| Salary                            | \$ 3,841,781        | \$ 3,498,056        | \$ 4,795,004        | \$ 953,224                               | 25%         |
| <b>Total Salaries</b>             | <b>\$ 3,841,781</b> | <b>\$ 3,498,056</b> | <b>\$ 4,795,004</b> | <b>\$ 953,224</b>                        | <b>25%</b>  |
| <b>Total Payroll Taxes</b>        |                     |                     |                     |  |             |
|                                   | \$ 302,981          | \$ 282,630          | \$ 423,650          | \$ 120,669                               | 40%         |
| <b>Benefits</b>                   |                     |                     |                     |  |             |
| Life, Health, Vision, etc.        | \$ 408,773          | \$ 378,687          | \$ 589,499          | \$ 180,726                               | 44%         |
| <b>Total Benefits</b>             | <b>\$ 408,773</b>   | <b>\$ 378,687</b>   | <b>\$ 589,499</b>   | <b>\$ 180,726</b>                        | <b>44%</b>  |
| <b>Retirement</b>                 |                     |                     |                     |  |             |
| 401(k) Contr. & Employee Matching | \$ 550,669          | \$ 519,226          | \$ 693,219          | \$ 142,551                               | 26%         |
| <b>Total Retirement</b>           | <b>\$ 550,669</b>   | <b>\$ 519,226</b>   | <b>\$ 693,219</b>   | <b>\$ 142,551</b>                        | <b>26%</b>  |
| <b>Total Personnel Costs</b>      | <b>\$ 5,104,203</b> | <b>\$ 4,678,599</b> | <b>\$ 6,501,372</b> | <b>\$ 1,397,169</b>                      | <b>27%</b>  |
| <b>FTEs</b>                       | 39.50               | 43.00               | 49.00               |  |             |
| <b>Cost per FTE</b>               |                     |                     |                     |  |             |
| Salaries                          | \$ 97,255           | \$ 81,350           | \$ 97,857           | \$ 602                                   | 0.6%        |
| Payroll Taxes                     | 7,670               | 6,573               | 8,646               | 976                                      | 12.7%       |
| Benefits                          | 10,348              | 8,807               | 12,031              | 1,682                                    | 16.3%       |
| Retirement                        | 13,940              | 12,075              | 14,147              | 207                                      | 1.5%        |
| <b>Total Cost per FTE</b>         | <b>\$ 129,213</b>   | <b>\$ 108,805</b>   | <b>\$ 132,681</b>   | <b>\$ 3,468</b>                          | <b>2.7%</b> |

### Explanation of Significant Variances – 2011 Budget versus 2010 Budget

1. Texas RE salaries per FTE are in line with expectations based on the changes in headcount and the salary assumptions.
2. Payroll taxes are higher due to higher FUTA (Federal Unemployment Taxes) and SUTA (State Unemployment Taxes). This increase is resulting from a lack of history with the respective agencies. When companies do not have an experience rating with the agencies that coordinate unemployment benefits for former employees, the amount paid for unemployment taxes is higher than a company with a verified low experience rating. This is expected to continue for at least another year.
3. Also included in benefits expense is training expenses for employees that were previously recorded under miscellaneous expense category. This is approximately \$29K in new expense for employee benefits.
4. Benefits expense also reflects \$30K in relocation that was previously budgeted under the MOU with ERCOT ISO prior to 2011. Finally, the remaining amount of increase for benefits (\$122K) is attributed to the increase in headcount.
5. The retirement expenses are budgeted based on expected participation rates.

## Consultants and Contracts

Table B-5

| Consultants                           | Budget<br>2010    | Projection<br>2010 | Budget<br>2011    | Variance<br>2011 Budget v<br>2010 Budget | Variance<br>% |
|---------------------------------------|-------------------|--------------------|-------------------|--|---------------|
| <b>Consultants</b>                    |                   |                    |                   |  |               |
| 65000-Consultants                     | \$ -              | \$ -               | \$ 20,000         | \$ 20,000                                | 100.00%       |
| 65200-IT-Hosting Fees                 | -                 | -                  | \$ 67,223         | 67,223                                   | 100.00%       |
| 65300-IT-Managed Services Fees        | -                 | -                  | \$ 510,368        | 510,368                                  | 100.00%       |
| <b>Consultants Total</b>              | <b>\$ -</b>       | <b>\$ -</b>        | <b>\$ 597,591</b> | <b>\$ 597,591</b>                        |               |
| Contracts                             | Budget<br>2010    | Projection<br>2010 | Budget<br>2011    | Variance<br>2011 Budget v<br>2010 Budget | Variance<br>% |
| <b>Contracts</b>                      |                   |                    |                   |  |               |
| Corporate Support Allocation (MOU)    | \$ 44,777         | \$ 44,777          | \$ -              | \$ (44,777)                              | -100.00%      |
| Board Related Search & Support Fees   | 487,675           | 487,675            | -                 | (487,675)                                | -100.00%      |
| IT Administration (MOU)               | 72,032            | 72,032             | -                 | (72,032)                                 | -100.00%      |
| Contracts                             | -                 | -                  | 2,580             | 2,580                                    | 100.00%       |
| Maintenance for Accounting System     | -                 | -                  | 8,000             | 8,000                                    | 100.00%       |
| <b>Contracts Total</b>                | <b>\$ 604,483</b> | <b>\$ 604,483</b>  | <b>\$ 10,580</b>  | <b>\$ (593,903)</b>                      | <b>-98%</b>   |
| <b>Total Consulting and Contracts</b> | <b>\$ 604,483</b> | <b>\$ 604,483</b>  | <b>\$ 608,171</b> | <b>\$ 3,688</b>                          | <b>1%</b>     |

## Explanation of Significant Variances – 2011 Budget versus 2010 Budget

1. Consultant's expense of \$20K is reflecting recruiter fees that are separate from the benefits expense charged to personnel expenses. However, the administration costs were previously budgeted under professional services in 2010. In 2011, there will not be start-up costs to be paid and therefore it is appropriate to reduce the expense budget.
2. IT hosting fees represent Data Centers (Primary and Backup), Electronic Security Equipment Maintenance and Subscription \$67K. This expense category was also paid under the MOU and professional services prior to 2011.
3. IT managed service fees are for Managed Hosting Services and Infrastructure Services, Reliability Standards Tracking Site, 24-hour Managed Security Service Provider for Networks, Service Desk, and Managed Exchange Services. The total expense of \$510K was previously paid under the MOU and professional services prior to 2011.
4. Under contracts, the previous MOU expenses (Corporate Support, Board, and IT Administration) paid to ERCOT ISO, prior to 2011 are no longer within this category. However, there are now direct expenses within G&A, IT, HR, and Finance that are accounted for in different account categories. Due to a new chart of accounts for 2010 associated with the separation of Texas RE from ERCOT ISO, it was necessary to adopt a chart of accounts more closely aligned with NERC.
5. There is \$3K for EthicsPoint is budgeted in 2011 under contracts. This expense was previously budgeted under professional services in prior years.
6. Finally, the \$8K for maintenance expense is attributed to the annual maintenance for the accounting system. This is a new expense for 2011.

Table B-6

| Office Rent                                 | Budget<br>2010    | Projection<br>2010 | Budget<br>2011    | Variance<br>2011 Budget<br>v 2010<br>Budget | Variance<br>% |
|---|-------------------|--------------------|-------------------|---|---------------|
| Office Rent & Facilities                    | \$ 261,900        | \$ 261,900         | \$ 475,000        | 213,100                                     | -20.05%       |
| Utilities                                   | -                 | -                  | -                 | -   |               |
| Security                                    | -                 | -                  | 24,000            | 24,000                                      | 100.00%       |
| 2010 Office Move and Improvements           | 50,000            | 50,000             | -                 | (50,000)                                    | 100.00%       |
| 2010 Office Move Project Management Expense | 25,000            | 25,000             | -                 | (25,000)                                    | 100.00%       |
| MRC, Standards, and Board Meeting Room      | 27,000            | 27,000             | -                 | (27,000)                                    | 100.00%       |
| <b>Total Office Rent</b>                    | <b>\$ 363,900</b> | <b>\$ 363,900</b>  | <b>\$ 499,000</b> | <b>\$ 135,100</b>                           | <b>37.13%</b> |

### Explanation of Significant Variances – 2011 Budget versus 2010 Budget

1. Rent expenses are increasing \$213K for two reasons.
  - First, the non-statutory portion of the rent expense is being absorbed into the statutory activity/area. The amount of rent previously charged would no longer be direct coded to non-statutory expenses (\$80K). In 2010, the non-statutory area had direct rent expense recorded to that particular budget. However, with the significant changes in 2011, the non-statutory activities receive an allocation of indirect expenses (which includes rent) based on its number of FTEs percentage to total FTEs.
  - The second reason for the increase is attributed to Texas RE procuring additional space for its current staff, future growth and meeting space. The resulting increase from this is approximately \$133K for the year. Texas RE does not have enough space for its proposed 2011 headcount.
2. Additionally, the lease will expire December 31, 2010. Therefore, there are reasons to move to a new and larger space that will enable Texas RE to operate more effectively and efficiently.
3. Finally, Texas RE believes that procuring the larger space will allow Texas RE to reduce the meeting costs over time. If Texas RE is required to host its larger meetings offsite, the cost of hotel, food and ancillary services will be higher.

Table B-7

| Office Costs                    | Budget<br>2010   | Projection<br>2010 | Budget<br>2011    | Variance<br>2011 Budget v<br>2010 Budget | Variance %     |
|---------------------------------|------------------|--------------------|-------------------|--|----------------|
| Office Supplies                 | \$ 16,766        | \$ 16,766          | \$ 9,600          | \$ (7,166)                               | -42.74%        |
| Computer Supplies               | -                | -                  | 20,000            | 20,000                                   | 100.00%        |
| Telephone/Cell Phones           | 14,040           | 14,040             | 36,240            | 22,200                                   | 158.12%        |
| Postage                         | 3,713            | 3,713              | 1,440             | (2,273)                                  | -61.22%        |
| Express Shipping                | 7,980            | 7,980              | 4,000             | (3,980)                                  | -49.87%        |
| Stationary Forms                | 4,913            | 4,913              | 2,350             | (2,563)                                  | -52.17%        |
| Reports - Graphics              | 1,200            | 1,200              | 1,000             | (200)                                    | -16.67%        |
| Internet Expense                |                  |                    | 105,655           | 105,655                                  | 100.00%        |
| Subscriptions & Publications    |                  | -                  | 1,240             | 1,240                                    | 100.00%        |
| Equipment Repair/Srv. Contracts |                  |                    | 37,420            | 37,420                                   | 100.00%        |
| Bank Charges                    |                  |                    | 600               | 600                                      | 100.00%        |
| 71500-Dues                      |                  |                    | 4,950             | 4,950                                    | 100.00%        |
| <b>Total Office Costs</b>       | <b>\$ 48,612</b> | <b>\$ 48,612</b>   | <b>\$ 224,495</b> | <b>\$ 132,913</b>                        | <b>361.81%</b> |

#### Explanation of Significant Variances – 2011 Budget versus 2010 Budget

1. General office supplies prior to 2011 reflected computer supplies and certain contract expenses for document destruction. Those new accounts are broken-out in 2011 and so can be tracked more accurately. The result is a shift in expense to computer supplies of \$7K.
2. There will be small items purchased over the course of the year that do not meet the capital threshold, such as mice, cords, powerstrips, small UPS units, etc. In total, computer supplies purchases will increase \$20K.
3. Telephone is increasing primarily related to online meeting service costs. This expense was previously included in the MOU costs prior to 2011. The result is an increase of \$12K for those expenses. Additionally, there is approximately a \$10K increase in general telephone expense which also was paid under the MOU prior to 2011.
4. Centralized management of the postage, express shipping and stationary should allow us to reduce costs by approximately \$9K from the 2010 budget. The volumes are decreasing due to the new corporate structure.
5. Internet expense is increasing \$106K. This expense category was paid under the MOU prior to 2011 and a small amount for hosting was budgeted in 2010. However, the contracts in place will require the higher connectivity expense between Texas RE, its data center and its back-up location.
6. Equipment repair and maintenance for the Local Area Network Equipment Service Support and Maintenance, Network Server Hardware Service and Warranty is expected to total approximately \$37K.
7. The remaining items for subscriptions, publications, bank charges, and dues were previously paid under miscellaneous and have been reclassified here for the new chart of accounts.

Table B-8

| Professional Services       | Budget<br>2010      | Projection<br>2010  | Budget<br>2011    | Variance<br>2011 Budget v<br>2010 Budget | Variance %     |
|-----------------------------|---------------------|---------------------|-------------------|--|----------------|
| Outside Legal               | \$ 390,000          | \$ 390,000          | \$ 320,000        | \$ (70,000)                              | -17.95%        |
| Accounting & Auditing Fees  | 87,820              | \$ 87,820           | 90,000            | 2,180                                    | 2.48%          |
| Accounting Services Fees    | 46,582              | \$ 46,582           |                   | (46,582)                                 | -100.00%       |
| Insurance / Risk Management | 82,608              | \$ 82,608           | 85,000            | 2,392                                    | 2.90%          |
| IT Professional Services    | 388,217             | \$ 630,533          |                   | (388,217)                                | -100.00%       |
| RSVP Hosting                | 10,000              | \$ 10,000           |                   | (10,000)                                 | -100.00%       |
| Recruitment                 | 63,000              | \$ 63,000           | 14,180            | (48,820)                                 | -77.49%        |
| Other Professional Services | 60,000              | \$ 60,000           |                   | (60,000)                                 | -100.00%       |
| Benefits Administration     | 70,720              | \$ 70,720           | 20,020            | (50,700)                                 | -71.69%        |
| Board Fees                  | -                   | \$ -                | 220,800           | 220,800                                  | 100.00%        |
| Security                    | 15,300              | \$ 15,300           | -                 | (15,300)                                 | -100.00%       |
| <b>Total Services</b>       | <b>\$ 1,214,246</b> | <b>\$ 1,456,562</b> | <b>\$ 750,000</b> | <b>\$ (464,246)</b>                      | <b>-48.51%</b> |

#### Explanation of Significant Variances – 2011 Budget versus 2010 Budget

1. Outside legal expenses are expected to decrease from 2010 to 2011. Therefore the budget is being reduced \$70K.
2. Accounting and auditing fees (including accounting services fees) are reflecting reductions of \$44K. This is attributed to savings in HR and Finance service providers.
3. IT professional services have been moved to consultants and contracts and are now in a more permanent account for Texas RE's new environment. This \$388K reduction has been shifted to the items above in Tables B-5 and B-7.
4. The hosting for the Standards Tracking Tool (RSVP) is now included in the general hosting costs for Texas RE. The new environment allows for the consolidation of that hosting into IT.
5. By adding a dedicated HR manager in 2010, Texas RE was able to capitalize on efficiencies and reduce its recruiting fees.
6. Other professional services related to the separation planning will not be incurred in 2011.
7. Benefits administration costs for benefit design and management are expected to be significantly less due to elimination of start-up expenses. The result is a savings of \$51K.
8. Board fees have been shifted from consultants and contracts to professional services in the new chart of accounts. The increase reflected here is \$221K; however, there is a corresponding reduction under consultants and contracts of \$488K.
9. Security is now budgeted under rent and facilities and therefore in 2011, there is \$0 budgeted in this category. It is expected that security will remain within rent and facilities from now on.

**Table B-9**

| Other Non-Operating Expenses | Budget<br>2010 | Projection<br>2010 | Budget<br>2011 | Variance<br>2011 Budget v<br>2010 Budget | Variance % |
|------------------------------|----------------|--------------------|----------------|--|------------|
| Total Non-Operating Expenses | \$ -           | \$ -               | \$ -           | \$ -                                     | -          |

**Explanation of Significant Variances – 2011 Budget versus 2010 Budget**

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## Section C – Non-Statutory Activities

### 2011 Business Plan and Budget

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**Section C — 2010 Non-Statutory Business Plan and Budget**

| <b>Non-Statutory Activities</b><br>(in whole dollars) |                    |                    |                                |
|---|--------------------|--------------------|--------------------------------|
|   | <b>2010 Budget</b> | <b>2011 Budget</b> | <b>Increase<br/>(Decrease)</b> |
| Total FTEs  | 6.5                | 1.0                | (5.5)                          |
| Direct Expenses                                       | \$ 1,112,132       | \$ 187,842         | \$ (924,290)                   |
| Indirect Expenses                                     | \$ -               | \$ 78,127          | \$ 78,127                      |
| Inc(Dec) in Fixed Assets                              | \$ 37,000          | \$ -               | \$ (37,000)                    |
| Total Funding Requirement                             | \$ 1,149,132       | \$ 265,969         | \$ (883,163)                   |

### Non-Statutory Functional Scope

Texas RE will also perform limited non-statutory duties. Texas RE does not anticipate performing the audits, investigations, or other monitoring or reporting of market participants' compliance with ERCOT Protocols and Operating Guides that it performed in 2010 and its predecessor Texas Regional Entity performed in previous years. Texas RE will, however, need to respond to subpoenas and provide testimony and technical support to the Public Utility Commission of Texas (PUCT) regarding Texas RE's previous non-statutory compliance and reporting from the period in which Texas RE conducted these activities, for a transitional period.

### Major 2011 Assumptions and Cost Impacts

- Texas RE will not be the compliance authority performing Protocol and Operating Guide compliance monitoring and reporting for the PUCT in 2011
- Texas RE's non-statutory activities will include responding to subpoenas and providing testimony and technical support to the PUCT regarding compliance matters from prior to 2011

### 2011 Primary Goals and Objectives —

- Appropriately respond to all subpoenas and requests for information and provide required testimony and technical support for the PUCT

Section C — 2010 Non-Statutory Business Plan and Budget

2010 Budget and Projection and 2011 Budget Comparisons

| <b>Statement of Activities and Capital Expenditures</b> |                     |                     |   |                   |   |
|---|---------------------|---------------------|---|-------------------|---|
| <b>2010 Budget &amp; Projection, and 2011 Budget</b>    |                     |                     |   |                   |   |
| <b>NON-STATUTORY</b>                                    |                     |                     |   |                   |   |
|   | 2010<br>Budget      | 2010<br>Projection  | Variance<br>2010 Projection<br>v 2010 Budget<br>Over(Under) | 2011<br>Budget    | Variance<br>2011 Budget<br>v 2010 Budget<br>Over(Under) |
| <b>Funding</b>  |                     |                     |   |                   |   |
| <b>Texas RE Funding</b>                                 |                     |                     |   |                   |   |
| Texas RE Assessments                                    | \$ -                | \$ -                | \$ -  | \$ -              | \$ -  |
| Penalty Sanctions                                       | \$ -                | \$ -                | \$ -  | \$ -              | \$ -  |
| <b>Total Texas RE Funding</b>                           | <b>\$ -</b>         | <b>\$ -</b>         | <b>\$ -</b>   | <b>\$ -</b>       | <b>\$ -</b>   |
| Membership Dues/Non-statutory Assessments               | 1,183,879           | 1,183,879           | -   | 265,969           | \$ (917,910)  |
| Federal Grants  | -                   | -                   | -   | -                 | -   |
| Services & Software                                     | -                   | -                   | -   | -                 | -   |
| Workshops   | -                   | -                   | -   | -                 | -   |
| Interest  | -                   | -                   | -   | -                 | -   |
| Miscellaneous   | -                   | -                   | -   | -                 | -   |
| <b>Total Funding</b>                                    | <b>\$ 1,183,879</b> | <b>\$ 1,183,879</b> | <b>\$ -</b>   | <b>\$ 265,969</b> | <b>\$ (917,910)</b>                                     |
| <b>Expenses</b>   |                     |                     |   |                   |   |
| <b>Personnel Expenses</b>                               |                     |                     |   |                   |   |
| Salaries  | \$ 656,614          | \$ 656,614          | \$ -  | \$ 112,913        | \$ (543,701)  |
| Payroll Taxes   | 53,181              | 53,181              | -   | 10,023            | (43,159)  |
| Benefits  | 73,123              | 73,123              | -   | 12,533            | (60,589)  |
| Retirement Costs  | 95,280              | 95,280              | -   | 16,372            | (78,908)  |
| <b>Total Personnel Expenses</b>                         | <b>\$ 878,199</b>   | <b>\$ 878,199</b>   | <b>\$ -</b>   | <b>\$ 151,842</b> | <b>\$ (726,357)</b>                                     |
| <b>Meeting Expenses</b>                                 |                     |                     |   |                   |   |
| Meetings  | \$ 5,600            | \$ 5,600            | \$ -  | \$ -              | \$ (5,600)  |
| Travel  | 624                 | 624                 | -   | -                 | (624)   |
| Conference Calls  | -                   | -                   | -   | -                 | -   |
| <b>Total Meeting Expenses</b>                           | <b>\$ 6,224</b>     | <b>\$ 6,224</b>     | <b>\$ -</b>   | <b>\$ -</b>       | <b>\$ (6,224)</b>                                       |
| <b>Operating Expenses</b>                               |                     |                     |   |                   |   |
| Consultants & Contracts                                 | \$ 82,467           | \$ 82,467           | \$ -  | \$ -              | \$ (82,467)   |
| Office Rent   | 60,600              | 60,600              | -   | -                 | (60,600)  |
| Office Costs  | 810                 | 810                 | -   | -                 | (810)   |
| Professional Services                                   | 45,684              | 45,684              | -   | 36,000            | (9,684)   |
| Miscellaneous   | 8,148               | 8,148               | -   | -                 | (8,148)   |
| Depreciation  | 30,000              | 30,000              | -   | -                 | (30,000)  |
| <b>Total Operating Expenses</b>                         | <b>\$ 227,709</b>   | <b>\$ 227,709</b>   | <b>\$ (0)</b>   | <b>\$ 36,000</b>  | <b>\$ (191,709)</b>                                     |
| <b>Total Direct Expenses</b>                            | <b>\$ 1,112,132</b> | <b>\$ 1,112,132</b> | <b>\$ -</b>   | <b>\$ 187,842</b> | <b>\$ (924,290)</b>                                     |
| <b>Indirect Expenses</b>                                | <b>\$ -</b>         | <b>\$ -</b>         | <b>\$ -</b>   | <b>\$ 78,127</b>  | <b>\$ 78,127</b>  |
| <b>Other Non-Operating Expenses</b>                     | <b>\$ -</b>         | <b>\$ -</b>         | <b>\$ -</b>   | <b>\$ -</b>       | <b>\$ -</b>   |
| <b>Total Expenses</b>                                   | <b>\$ 1,112,132</b> | <b>\$ 1,112,132</b> | <b>\$ -</b>   | <b>\$ 265,969</b> | <b>\$ (846,163)</b>                                     |
| <b>Change in Assets</b>                                 | <b>\$ 71,748</b>    | <b>\$ 71,748</b>    | <b>\$ 0</b>   | <b>\$ -</b>       | <b>\$ (71,748)</b>                                      |
| <b>Fixed Assets</b>                                     |                     |                     |   |                   |   |
| Depreciation  | (30,000)            | (30,000)            | -   | -                 | 30,000  |
| Computer & Software CapEx                               | 67,000              | 67,000              | -   | -                 | (67,000)  |
| Furniture & Fixtures CapEx                              | -                   | -                   | -   | -                 | -   |
| Equipment CapEx   | -                   | -                   | -   | -                 | -   |
| Leasehold Improvements                                  | -                   | -                   | -   | -                 | -   |
| <b>(Incr)Dec in Fixed Assets</b>                        | <b>\$ (37,000)</b>  | <b>\$ (37,000)</b>  | <b>\$ -</b>   | <b>\$ -</b>       | <b>\$ 37,000</b>  |
| Allocation of Fixed Assets                              | \$ -                | \$ -                | \$ -  | -                 | -   |
| <b>Change in Fixed Assets</b>                           | <b>(37,000)</b>     | <b>(37,000)</b>     | <b>-</b>  | <b>-</b>          | <b>37,000</b>   |
| <b>TOTAL CHANGE IN NET ASSETS</b>                       | <b>\$ 34,748</b>    | <b>\$ 34,748</b>    | <b>\$ 0</b>   | <b>\$ -</b>       | <b>\$ (34,748)</b>                                      |

## Personnel Analysis

Fractional FTEs reflect part-time, shared employees, or employees who worked in fewer than all four quarters of the year.

| Total FTE's by Program Area               | Budget<br>2010 | Projection<br>2010 | Direct FTEs<br>2011 Budget | Shared FTEs <sup>1</sup><br>2011 Budget | Total FTEs<br>2011 Budget | Change<br>from 2010<br>Budget to<br>2011 Budget |
|---|----------------|--------------------|----------------------------|---|---------------------------|---|
| <b>NON-STATUTORY</b>                      |                |                    |                            |   |                           |   |
| <b>Operational Programs</b>               |                |                    |                            |   |                           |   |
| Protocol                                  | 5.00           | 3.50               |                            | 0.75                                    | 0.75                      | -4.25   |
| <b>Total FTEs Operational Programs</b>    | <b>5.00</b>    | <b>3.50</b>        | <b>0.00</b>                | <b>0.75</b>                             | <b>0.75</b>               | <b>-4.25</b>                                    |
| <b>Administrative Programs</b>            |                |                    |                            |   |                           |   |
| G&A                                       | 1.50           | 0.50               |                            | 0.25                                    | 0.25                      | -1.25   |
| <b>Total FTEs Administrative Programs</b> | <b>1.50</b>    | <b>0.50</b>        | <b>0.00</b>                | <b>0.25</b>                             | <b>0.25</b>               | <b>-1.25</b>                                    |
| <b>Total FTEs</b>                         | <b>6.50</b>    | <b>4.00</b>        | <b>0.00</b>                | <b>1.00</b>                             | <b>1.00</b>               | <b>-5.50</b>                                    |

<sup>1</sup>A shared FTE is defined as an employee who performs both Statutory and Non-Statutory functions.

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**Reserve Analysis — 2010–2011**

| <b>Working Capital Reserve Analysis 2010-2011</b>                             |                        |
|---|------------------------|
| <b>NON-STATUTORY</b>  |                        |
| <b>Beginning Working Capital Reserve (Deficit), December 31, 2009</b>         | 0                      |
| Plus: 2010 Texas RE Funding (from LSEs or designees)                          |                        |
| Plus: 2010 Other funding sources  | 1,183,879              |
| Less: 2010 Projected expenses & capital expenditures                          | (1,149,132)            |
| <b>Projected Working Capital Reserve (Deficit), December 31, 2010</b>         | <u><u>34,748</u></u>   |
| <b>Desired Working Capital Reserve, December 31, 2011</b>                     | <sup>1</sup> 0         |
| Less: Projected Working Capital Reserve, December 31, 2010                    | (34,748)               |
| <b>Additional funding required to achieve desired Working Capital Reserve</b> | <u><u>(34,748)</u></u> |
| 2011 Funding for Expenses and Capital Expenditures                            | 265,969                |
| Less: Other Funding Sources   | (265,969)              |
| Adjustment to achieve desired Working Capital Reserve                         |                        |
| <b>2011 Funding (reserve adjustment)</b>                                      | <u><u>0</u></u>        |

<sup>1</sup> On June 30, 2010, the RE Board of Directors approved a desired working capital reserve of \$0 due to change in non-statutory work assumption in 2011.

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**Section D – Additional Consolidated Financial  
Statements**  
**2011 Business Plan and Budget**

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Section D — Additional Financial Statements

Section D  
2011 Consolidated Statement of Activities by Program, Statutory and Non-Statutory

| Statement of Activities - Capital Expenditures by Program - 2011 Budget | Statutory Total |                 | Non-Statutory Total |                     | Functions in the Job Order Agreement                           |   |                                     |  |                                      |  |                             |                            |                      |                        | Non-Statutory Functions |                        |                     |
|---|-----------------|-----------------|---------------------|---------------------|--|---|-------------------------------------|--|--------------------------------------|--|-----------------------------|----------------------------|----------------------|------------------------|-------------------------|------------------------|---------------------|
|   | Total           | Statutory Total | Total               | Non-Statutory Total | Reliability Assessments and Performance Analysis (Section 800) | Compliance and Organization (Section 409.5.000) | Reliability Standards (Section 305) | Reliability Assessments and Performance Analysis (Section 800) | Training and Education (Section 900) | Station Awareness and Safety (Section 100) | Committee and Member Forums | General and Administrative | Legal and Regulatory | Information Technology | Human Resources         | Accounting and Finance | Non-Statutory Total |
| <b>Funding</b>  |                 |                 |                     |                     |  |   |                                     |  |                                      |  |                             |                            |                      |                        |                         |                        |                     |
| Total RE Funding  | 9,227,823       | 9,227,823       | -                   | -                   | 495,464  | 7,105,792                                       | 725,672                             | 543,544  | 430,571                              | -  | 126,859                     | -                          | -                    | -                      | -                       | -                      | -                   |
| Penalty Assessments   | 20,000          | 20,000          | -                   | -                   | 1,033  | 15,270  | 1,658                               | 965  | 1,024                                | -  | -                           | -                          | -                    | -                      | -                       | -                      | -                   |
| Total Texas RE Funding  | 9,247,823       | 9,247,823       | -                   | -                   | 496,517  | 7,121,062                                       | 727,330                             | 344,509  | 431,636                              | -  | 126,859                     | -                          | -                    | -                      | -                       | -                      | -                   |
| Non-statutory Funding   | 265,989         | -               | 265,989             | -                   | -  | -   | -                                   | -  | -                                    | 1,464                                      | -                           | -                          | -                    | -                      | -                       | -                      | 265,989             |
| Membership Dues   | 27,500          | 27,500          | -                   | -                   | 1,420  | 20,986  | 2,293                               | 1,327  | 1,464                                | -  | -                           | -                          | -                    | -                      | -                       | -                      | -                   |
| Books & Software  | 215,500         | 215,500         | -                   | -                   | -  | -   | -                                   | 215,500  | -                                    | -  | -                           | -                          | -                    | -                      | -                       | -                      | -                   |
| Workshops   | 600             | 600             | -                   | -                   | 600  | -   | -                                   | -  | -                                    | -  | -                           | -                          | -                    | -                      | -                       | -                      | -                   |
| Interest  | 600             | 600             | -                   | -                   | -  | -   | -                                   | -  | -                                    | 600  | -                           | -                          | -                    | -                      | -                       | -                      | -                   |
| Miscellaneous   | -               | -               | -                   | -                   | -  | -   | -                                   | -  | -                                    | -  | -                           | -                          | -                    | -                      | -                       | -                      | -                   |
| Total Funding   | 9,757,392       | 9,491,423       | 265,989             | -                   | 497,938  | 7,146,058                                       | 729,633                             | 561,336  | 433,099                              | 127,459                                    | -                           | -                          | -                    | -                      | -                       | -                      | 265,989             |
| <b>Expenses</b>   |                 |                 |                     |                     |  |   |                                     |  |                                      |  |                             |                            |                      |                        |                         |                        |                     |
| Personnel Expenses  |                 |                 |                     |                     |  |   |                                     |  |                                      |  |                             |                            |                      |                        |                         |                        |                     |
| Salaries  | 4,807,818       | 4,795,004       | 112,813             | -                   | 296,012  | 2,942,088                                       | 361,177                             | 155,953  | 209,656                              | 161,154                                    | 274,717                     | 267,102                    | -                    | -                      | -                       | -                      | 187,145             |
| Payroll Taxes   | 433,672         | 423,650         | 10,023              | -                   | 20,897   | 290,251   | 32,136                              | 13,831   | 16,651                               | 13,056                                     | 24,410                      | 23,233                     | -                    | -                      | -                       | -                      | 10,023              |
| Benefits  | 602,032         | 589,499         | 12,533              | -                   | 26,697   | 367,508   | 40,421                              | 17,311   | 23,272                               | 24,663                                     | 31,154                      | 37,535                     | -                    | -                      | -                       | -                      | 20,533              |
| Retirement Costs  | 709,592         | 693,219         | 16,372              | -                   | 34,222   | 426,603   | 52,271                              | 22,613   | 30,400                               | 21,311                                     | 30,834                      | 38,730                     | -                    | -                      | -                       | -                      | 16,372              |
| Total Personnel Expenses  | 6,652,114       | 6,501,372       | 151,542             | -                   | 317,688  | 3,956,450                                       | 486,105                             | 209,709  | 281,980                              | 220,194                                    | 370,114                     | 367,100                    | -                    | -                      | -                       | -                      | 251,533             |
| Meeting Expenses  |                 |                 |                     |                     |  |   |                                     |  |                                      |  |                             |                            |                      |                        |                         |                        |                     |
| Meetings  | 234,300         | 234,300         | -                   | -                   | 3,700  | -   | -                                   | 215,500  | -                                    | 13,100                                     | -                           | 2,000                      | -                    | -                      | -                       | -                      | -                   |
| Travel  | 322,753         | 322,753         | -                   | -                   | 9,897  | 245,078   | 8,695                               | 301  | 1,288                                | 44,094                                     | 6,551                       | 3,805                      | 1,363                | 1,619                  | -                       | -                      | -                   |
| Conference Calls  | 569,053         | 569,053         | -                   | -                   | 13,697   | 245,078   | 6,695                               | 215,801  | 1,288                                | 57,194                                     | 6,551                       | 17,805                     | 1,363                | 1,619                  | -                       | -                      | -                   |
| Total Meeting Expenses  | 1,126,106       | 1,126,106       | -                   | -                   | 246,294  | -   | -                                   | 431,301  | -                                    | 114,388                                    | 6,551                       | 12,610                     | 2,768                | 2,987                  | -                       | -                      | -                   |
| Operating Expenses  |                 |                 |                     |                     |  |   |                                     |  |                                      |  |                             |                            |                      |                        |                         |                        |                     |
| Utilities   | 698,171         | 698,171         | -                   | -                   | 10,000   | 256,957   | -                                   | -  | -                                    | 780  | 1,800                       | 330,634                    | -                    | -                      | -                       | -                      | 8,000               |
| Office Rent   | 489,000         | 489,000         | -                   | -                   | -  | -   | -                                   | -  | -                                    | 489,000                                    | -                           | -                          | -                    | -                      | -                       | -                      | -                   |
| Office Costs  | 224,495         | 224,495         | -                   | -                   | 930  | 14,480  | -                                   | -  | -                                    | 29,145                                     | 2,240                       | 174,235                    | -                    | -                      | -                       | -                      | 3,205               |
| Professional Services   | 786,000         | 750,000         | 36,000              | -                   | -  | 294,500   | -                                   | -  | -                                    | 220,800                                    | 18,000                      | -                          | -                    | -                      | -                       | -                      | 36,000              |
| Miscellaneous   | 143,085         | 443,085         | -                   | -                   | -  | 183,750   | -                                   | -  | -                                    | 115,852                                    | -                           | 143,283                    | -                    | -                      | -                       | -                      | -                   |
| Depreciation  | 2,950,731       | 2,924,751       | 25,980              | -                   | 10,930   | 749,687   | -                                   | -  | -                                    | 863,677                                    | 22,040                      | 649,232                    | -                    | -                      | -                       | -                      | 36,000              |
| Total Operating Expenses  | 9,783,018       | 9,595,176       | 187,842             | -                   | 342,515  | 4,991,215                                       | 494,790                             | 425,510  | 263,248                              | 1,143,056                                  | 388,705                     | 1,033,157                  | -                    | -                      | -                       | -                      | 167,842             |
| Indirect Expenses   |                 |                 |                     |                     |  |   |                                     |  |                                      |  |                             |                            |                      |                        |                         |                        |                     |
| Travel  | -               | (78,127)        | 78,127              | -                   | 153,911  | 2,275,064                                       | 248,444                             | 143,754  | 158,598                              | (1,143,056)                                | (898,705)                   | (1,033,157)                | -                    | -                      | -                       | -                      | 78,127              |
| Total Expenses  | 9,783,018       | 9,517,049       | 265,969             | -                   | 496,426  | 7,266,279                                       | 743,234                             | 569,264  | 441,846                              | 127,459                                    | -                           | -                          | -                    | -                      | -                       | -                      | 265,969             |
| Change in Assets  | (25,629)        | (25,629)        | -                   | -                   | 1,812  | (124,220)                                       | (13,702)                            | (7,929)  | (6,747)                              | -  | -                           | -                          | -                    | -                      | -                       | -                      | -                   |
| Fixed Assets  |                 |                 |                     |                     |  |   |                                     |  |                                      |  |                             |                            |                      |                        |                         |                        |                     |
| Computer & Software CapEx   | (143,085)       | (143,085)       | -                   | -                   | -  | (183,750)                                       | -                                   | -  | -                                    | (115,852)                                  | -                           | (143,283)                  | -                    | -                      | -                       | -                      | -                   |
| Furniture & Fixtures CapEx  | 290,000         | 290,000         | -                   | -                   | 10,000   | 185,000   | -                                   | -  | -                                    | -  | -                           | 95,000                     | -                    | -                      | -                       | -                      | -                   |
| Equipment CapEx   | -               | -               | -                   | -                   | -  | -   | -                                   | -  | -                                    | -  | -                           | -                          | -                    | -                      | -                       | -                      | -                   |
| Leasehold Improvements  | -               | -               | -                   | -                   | -  | -   | -                                   | -  | -                                    | -  | -                           | -                          | -                    | -                      | -                       | -                      | -                   |
| (Inc/Dec) in Fixed Assets   | 153,085         | 153,085         | -                   | -                   | (10,000)   | (1,250)   | -                                   | -  | -                                    | 115,952                                    | -                           | 48,313                     | -                    | -                      | -                       | -                      | -                   |
| Allocation of Fixed Assets  | -               | -               | -                   | -                   | 8,468  | 125,470   | 13,702                              | 7,928  | 8,747                                | (115,852)                                  | -                           | (48,313)                   | -                    | -                      | -                       | -                      | -                   |
| Change in Fixed Assets  | 153,085         | 153,085         | -                   | -                   | (1,512)  | 124,220   | 13,702                              | 7,928  | 8,747                                | -  | -                           | -                          | -                    | -                      | -                       | -                      | -                   |
| TOTAL CHANGE IN NET ASSETS  | 127,459         | 127,459         | -                   | -                   | 0  | 0   | 0                                   | 0  | 0                                    | 127,459                                    | -                           | -                          | -                    | -                      | -                       | -                      | -                   |
| FTEs  | 50.00           | 49.00           | 1.00                | -                   | 1.97   | 28.12   | 3.18                                | 1.84   | 2.03                                 | 0.59                                       | 1.71                        | 3.02                       | 2.60                 | 1.03                   | 2.00                    | -                      | 1.00                |

Section D — Additional Financial Statements

**Statement of Financial Position**

- As of December 31, 2009, per audit
- As of December 31, 2010, projected
- As of December 31, 2011, as budgeted

**Statement of Financial Position  
2009 Audited, 2010 Projection, and 2011 Budget**

**STATUTORY and NON-STATUTORY**

|   | (Per Audit)<br>31-Dec-09 | Projected<br>31-Dec-10 | Budget<br>31-Dec-11 |
|---|--------------------------|------------------------|---------------------|
| <b>ASSETS</b>   |                          |                        |                     |
| Cash  | 2,551,152                | 2,450,698              | 2,363,957           |
| Accounts receivable, net of allowance for uncollectible | 1,756,745                | -                      |                     |
| Other receivables                                       | -                        |                        |                     |
| Prepaid expenses and other current assets               | -                        |                        |                     |
| Security deposit  | -                        | 50,000                 | 50,000              |
| Cash value of insurance policies                        | -                        |                        |                     |
| Property and equipment                                  | 536,424                  | 1,872,653              | 1,719,568           |
| Total Assets  | <b>4,844,321</b>         | <b>4,373,352</b>       | <b>4,133,526</b>    |
| <b>LIABILITIES AND NET ASSETS</b>                       |                          |                        |                     |
| Liabilities   |                          |                        |                     |
| Accounts payable and accrued expenses                   | 903,722                  | 413,841                | 413,841             |
| Deferred income   | 1,667,187                | -                      |                     |
| Regional assessments collected in advance               |                          |                        |                     |
| Regulatory Liability                                    | 1,736,122                | -                      |                     |
| Accrued retirement liabilities                          |                          |                        |                     |
| Total Liabilities                                       | <b>4,307,032</b>         | <b>413,841</b>         | <b>413,841</b>      |
| Net Assets - unrestricted                               | 537,289                  | 3,959,511              | 3,719,685           |
| Total Liabilities and Net Assets                        | <b>4,844,321</b>         | <b>4,373,352</b>       | <b>4,133,526</b>    |
|   | 4,844,321                | 4,373,352              | 4,133,526           |

Approved by the Texas RE Board of Directors: June 30, 2010

2011 Texas RE Statutory Organization Chart

