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February 19, 2010

**VIA ELECTRONIC FILING**

Ms. Kimberly D. Bose  
Secretary  
Federal Energy Regulatory Commission  
888 First Street, N.E.  
Washington, D.C. 20426

**Re: North American Electric Reliability Corporation  
Docket No. RR010-\_\_ -000  
Petition for Approval of Delegation Agreement with Texas Reliability Entity, Inc.  
2010 Business Plan and Budget of Texas Reliability Entity, Inc.**

Dear Ms. Bose:

The North American Electric Reliability Corporation (NERC) hereby submits the "Petition of the North American Electric Reliability Corporation for Approval of Delegation Agreement with Texas Reliability Entity, Inc. and 2010 Business Plan and Budget of Texas Reliability Entity, Inc." As explained in the petition, by this filing NERC seeks the necessary approvals from the Commission to delegate authority to Texas Reliability, Inc. as the Regional Entity for the ERCOT Region, as successor to Texas Regional Entity, a division of Electric Reliability Council of Texas, Inc.

For the reasons discussed in the petition, NERC respectfully requests that the Commission issue an order granting the approvals sought in the petition by on or about May 20, 2010.

This filing consists of: (1) this transmittal letter, (2) the narrative text of the petition, which follows this transmittal letter, and (3) Attachments 1 through 8 to the petition. All of these documents are transmitted in a single pdf file.

Please contact the undersigned if you have any questions concerning this filing.

Respectfully submitted,

/s/ Owen E. MacBride  
Owen E. MacBride  
Attorney for North American Electric  
Reliability Corporation

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**UNITED STATES OF AMERICA  
Before the  
FEDERAL ENERGY REGULATORY COMMISSION**

**NORTH AMERICAN ELECTRIC                                    )  
RELIABILITY CORPORATION                                 )     Docket No. RR10-\_\_-000**

**PETITION OF THE  
NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION  
FOR APPROVAL OF DELEGATION AGREEMENT WITH  
TEXAS RELIABILITY ENTITY, INC. AND  
2010 BUSINESS PLAN AND BUDGET OF TEXAS RELIABILITY ENTITY, INC.**

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February 19, 2010

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### **ATTACHMENTS**

**Attachment 1:** Proposed Amended and Restated Delegation Agreement between NERC and Texas Reliability Entity, Inc. – Clean version

**Attachment 2:** Proposed Amended and Restated Delegation Agreement between NERC and Texas Reliability Entity, Inc. – Redlined against Amended and Restated Delegation Agreement between NERC and Texas Regional Entity, a division of Electric Reliability Council of Texas, Inc.

**Attachment 3:** Agreement between NERC and Texas Regional Entity, a division of Electric Reliability Council of Texas, Inc. terminating the Amended and Restated Delegation Agreement between NERC and Texas Regional Entity, a division of Electric Reliability Council of Texas, Inc.

**Attachment 4:** Proposed Amended 2010 Business Plan and Budget of Texas Reliability Entity, Inc. – Clean version

**Attachment 5:** Proposed Amended 2010 Business Plan and Budget of Texas Reliability Entity, Inc. – Redlined against Approved 2010 Business Plan and Budget of Texas Regional Entity, a division of Electric Reliability Council of Texas, Inc.

**Attachment 6:** Form of Assignment and Assumption Agreement between Electric Reliability Council of Texas, Inc. and Texas Reliability Entity, Inc.

**Attachment 7:** Resolutions of the Board of Directors of Texas Reliability Entity, Inc., Approving Amended and Restated Delegation Agreement between NERC and Texas Reliability Entity, Inc. and the Texas Reliability Entity, Inc. Amended 2010 Business Plan and Budget

**Attachment 8:** Resolution of NERC Board of Trustees approving the Amended and Restated Delegation Agreement between NERC and Texas Reliability Entity, Inc., Approving termination of Amended and Restated Delegation Agreement between NERC and Texas Regional Entity, a division of Electric Reliability Council of Texas, Inc., and approving the Texas Reliability, Inc. Amended 2010 Business Plan and Budget

## **I. INTRODUCTION**

In accordance with §215(e)(4) of the Federal Power Act<sup>1</sup> (“FPA”) and 18 C.F.R. §39.4 and §39.8, the North American Electric Reliability Corporation (“NERC”) requests the Commission’s approval of

- (1) an Amended and Restated Delegation Agreement between NERC and Texas Reliability Entity, Inc. (“New Texas RE”; such Agreement, the “New Texas RE RDA”), for the purpose of delegating authority to New Texas RE to develop, and to monitor and enforce compliance with, reliability standards within a geographic area described in Exhibit A to the New Texas RE RDA (such area, the “ERCOT Region”);
- (2) termination of the existing Amended and Restated Delegation Agreement between NERC and Texas Regional Entity [“Original Texas RE”], a division of the Electric Reliability Corporation of Texas (“ERCOT”; such Agreement, the “Original Texas RE RDA”), with such termination to be effective contemporaneous with the effective date of the New Texas RE RDA, and
- (3) a 2010 Business Plan and Budget, and assessments to load-serving entities and designees (“LSE”) within the ERCOT Region, for New Texas RE (the “Amended 2010 Business Plan and Budget”).

New Texas RE has been formed as a new, non-profit corporation under Texas law for the purpose of becoming the NERC Regional Entity for the ERCOT Region, as successor to Original Texas RE. New Texas RE is not affiliated with, and will be independent from, ERCOT. The delegation of authority to New Texas RE to monitor and enforce compliance with reliability standards in the ERCOT Region will eliminate existing structural concerns about lack of independence of Original Texas RE in monitoring and enforcing compliance with reliability standards by the ERCOT ISO. The proposed New Texas RE RDA is substantially identical to the Original Texas RE RDA, with the exception of Exhibit B – Bylaws. As a separate, stand-alone corporation, New Texas RE has adopted its own set of Bylaws; in contrast, Original Texas RE does not have bylaws, and Exhibit B to the Original Texas RE RDA contains the ERCOT

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<sup>1</sup> 16 U.S.C. §824o (2005).

bylaws “for informational purposes only.” NERC has determined that New Texas RE meets the criteria for delegation of authority by the electric reliability organization (“ERO”) specified in §215(e)(4) of the FPA and 18 C.F.R. §39.8. The proposed New Texas RE RDA, including New Texas RE’s governance structure, is described in greater detail in §III of this petition.

The statutory funding requirement provided for in New Texas RE’s proposed 2010 Business Plan and Budget is \$2,510,964 higher than the statutory funding requirement provided for in Original Texas RE’s approved 2010 Business Plan and Budget.<sup>2</sup> The increased funding requirement has three principal components:

- (1) one-time start-up costs (capital expenditures and operating expenses) being incurred by New Texas RE (\$1,161,950);
- (2) higher ongoing operating expenses for New Texas RE, due primarily to the fact that Texas RE must acquire from third party providers, at higher costs, certain general and administrative services that Original Texas RE receives from ERCOT (\$1,133,802); and
- (3) additional provision for Working Capital Reserve (based on a 75-day cash reserve) based in the increased levels of expenditures (\$215,212).

New Texas RE plans to hire the employees of Original Texas RE, and also plans to add 5.5 statutory full-time equivalent employees (“FTE”) not provided for in Original Texas RE’s 2010 Business Plan and Budget.<sup>3</sup> Additionally, ERCOT and New Texas RE will enter into an Assignment and Assumption Agreement to transfer various tangible and intangible assets, including fund balances, to New Texas RE. Within 90 days following the effective date of the

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<sup>2</sup> The Commission approved Original Texas RE’s 2010 Business Plan and Budget in an Order issued October 15, 2009. *Order Conditionally Accepting 2010 Business Plan and Budget of the North American Electric Reliability Corporation and Ordering Compliance Filings*, 129 FERC ¶ 61,040 (2009).

<sup>3</sup> New Texas RE’s proposed 2010 Business Plan and Budget also provides for an increase in non-statutory funding of \$30,108, and a staffing increase of 0.5 non-statutory FTE, over Original Texas RE’s 2010 non-statutory budget.

New Texas RE RDA, NERC, in cooperation with ERCOT and New Texas RE, will file a report with the Commission reconciling the statutory assessments and other funding received by Original Texas RE for 2010 and the statutory expenses incurred by Original Texas RE in 2010 against the Original 2010 Business Plan and Budget, and showing the disposition of any remaining funds including transfers to New Texas RE. The proposed Amended 2010 Business Plan and Budget, and New Texas RE's plans for operations, are described in greater detail on §IV of this petition.

The New Texas RE Board of Directors adopted resolutions approving the New Texas RE RDA and the Amended 2010 Business Plan and Budget on January 18, 2010. In addition, the members of New Texas RE voted to approve its Bylaws on February 5, 2010. The NERC Board of Trustees approved the delegation of statutory authority to New Texas RE and entry into the New Texas RE RDA, the termination of the Original Texas RE RDA, and the New Texas RE Amended 2010 Business Plan and Budget, on February 16, 2010.

This petition includes the following attachments:

**Attachment 1** is a “clean” version of the proposed New Texas RE RDA, including all exhibits.

**Attachment 2** is a redlined version of the New Texas RE RDA, marked to show the changes from the Original Texas RDA.<sup>4</sup>

**Attachment 3** is the agreement between NERC and Original Texas RE to terminate the Original Texas RE RDA effective as of the effective date of the New Texas RE RDA.

**Attachment 4** is the proposed Amended 2010 Business Plan and Budget of New Texas RE.

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<sup>4</sup> However, **Attachment 2** does not include a redline of the New Texas RE bylaws in Exhibit B of the New Texas RE RDA against the ERCOT bylaws that are provided “for informational purposes only” in Attachment 1 to Exhibit B to the Original Texas TRE RDA, as such a comparison would not be meaningful.

**Attachment 5** is a redline of the proposed Amended 2010 Business Plan and Budget of New Texas RE against the Commission-approved, Original 2010 Business Plan and Budget of Original Texas RE.

**Attachment 6** is the form of Assignment and Assumption Agreement to be entered into between ERCOT and New Texas RE for the transfer of assets to and assumption of liabilities by New Texas RE.<sup>5</sup>

**Attachment 7** is the resolutions of the Board of Directors of New Texas RE approving the New Texas RE RDA and the New Texas RE Amended 2010 Business Plan and Budget.

**Attachment 8** is the resolution of the NERC Board of Trustees approving entry into the New Texas RE RDA, the termination of the Original Texas RE RDA, and the New Texas RE Amended 2010 Business Plan and Budget.

NERC is requesting expeditious consideration and approval of the New Texas RE RDA, the termination of the Original Texas RE RDA, and the New Texas RE Amended 2010 Business Plan and Budget, by the Commission by on or about May 20, 2010. In order to give New Texas RE sufficient time following receipt of the Commission's Order to take the final steps to be prepared to operate as a Regional Entity, NERC and New Texas RE are planning that the New Texas RE RDA will go into effect within 60 days following issuance of the Commission's Order. Ideally, NERC and New Texas RE would like the effective date of the New Texas RE RDA to be July 1, 2010, which is the first day of a calendar quarter.<sup>6</sup> Among other things, a July 1, 2010 effective date will simplify the accounting for and reporting of the activities of Original Texas RE and New Texas RE as the Regional Entity during 2010. Additionally, an effective date of July 1, 2010 would allow New Texas RE to take responsibility for a compliance audit of the

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<sup>5</sup> Only the form of Assignment and Assumption Agreement, not the final agreement, is provided. The final Assignment and Assumption Agreement will include exhibits listing assets being transferred and liabilities being assumed, which cannot be finalized until on or about the effective date of the New Texas RE RDA and termination of the Original Texas RE RDA.

<sup>6</sup> NERC, New Texas RE and Original Texas RE recognize, of course, that the Commission could direct a different effective date.



ERCOT ISO that is scheduled for 2010.<sup>7</sup> Receipt of a Commission Order approving the New Texas RE RDA and the New Texas RE Amended 2010 Business Plan and Budget by on or about May 20, 2010, would provide approximately 40 days to accomplish the final steps necessary for New Texas RE to begin operations as the Regional Entity in the ERCOT Region.

## **II. NOTICES AND COMMUNICATIONS**

Notices and communications with respect to this filing may be addressed to:

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<sup>7</sup> The on-site portion of the compliance audit of ERCOT ISO is presently scheduled to take place on May 18-20, 2010, but the audit could be rescheduled to the second half of 2010.

**III. PROPOSED DELEGATION AGREEMENT BETWEEN  
NERC AND TEXAS RELIABILITY ENTITY, INC. AND  
ESTABLISHMENT OF TEXAS RELIABILITY ENTITY AS  
THE REGIONAL ENTITY FOR THE ERCOT REGION**

**A. Delegation Agreement History and Reasons for Formation of Texas Reliability Entity, Inc.**

Section 215(e)(4) of the FPA authorizes the Commission to adopt rules authorizing the ERO to enter into an agreement to delegate authority to a regional entity for the purpose of proposing reliability standards to the ERO and enforcing reliability standards, if:

- (1) the regional entity is governed by an independent board, a balanced stakeholder board, or a combination independent and balanced stakeholder board,
- (2) the regional entity otherwise meets the requirements of §215(c)(1) and (2), and
- (3) the agreement promotes effective and efficient administration of bulk-power system reliability.

The requirements of §215(c)(1) and (2) are that the regional entity has the ability to develop and enforce reliability standards that provide for an adequate level of reliability of the bulk-power system; and has established rules that (i) ensure its independence from the users, owners and operators of the bulk-power system while ensuring fair stakeholder representation in the selection of its directors and balanced decision-making in its committees and subordinate organizational structures; (ii) allocate equitably reasonable dues, fees, and other charges among end users for the regional entity's delegated activities; (iii) provide fair and impartial procedures for enforcement of reliability standards through the imposition of penalties (including limitations on activities, functions, or operations, or other appropriate sanctions); and (iv) provide for

reasonable notice and opportunity for public comment, due process, openness, and balance of interests in developing reliability standards and otherwise exercising its duties.<sup>8</sup>

The Commission has adopted rules governing approval of a delegation agreement between the ERO and a regional entity, in 18 C.F.R. §39.8. The rules require the ERO to file a statement with the Commission demonstrating that (1) the regional entity is governed by an independent board, a balanced stakeholder board, or a combination independent and balanced stakeholder board; (2) the regional entity otherwise satisfies the provisions of §215(c) of the FPA; and (3) the agreement promotes effective and efficient administration of bulk-power system reliability.<sup>9</sup> The Commission's rules further provide that the ERO shall and the Commission will rebuttably presume that a proposal for delegation to a regional entity organized on an interconnection-wide basis promotes effective and efficient administration of bulk-power system reliability and should be approved.<sup>10</sup>

The Commission initially approved a delegation agreement between NERC and Original Texas RE (as well as delegation agreements between NERC and the seven other Regional Entities and a *pro forma* delegation agreement) in an order issued April 19, 2007.<sup>11</sup> In subsequent orders based on compliance filings by NERC, the Commission approved revisions to the *pro forma* delegation agreement and the individual delegation agreements, including the

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<sup>8</sup> A further requirement in §215(c)(2), that the entity have rules that provide for taking appropriate steps to gain recognition in Canada and Mexico, is not applicable to Original Texas RE or to New Texas RE.

<sup>9</sup> 18 C.F.R. §39.8(c).

<sup>10</sup> 18 C.F.R. §39.8(e). New Texas RE, like Original Texas RE, is organized on an interconnection-wide basis and therefore is entitled to the presumption of §39.8(e).

<sup>11</sup> *Order Accepting ERO Compliance Filing, Accepting ERO/Regional Entity Delegation Agreements, and Accepting Regional Entity 2007 Business Plans*, 119 FERC ¶ 61,060 (2007), *Order on Rehearing*, 120 FERC ¶ 61,260 (2007).

Original Texas RE RDA.<sup>12</sup> In addition, the Commission issued an Order on November 2, 2009, approving proposed revisions to Original Texas RE's Regional Entity Standards Development Process, which is included in Exhibit C to the Original Texas RE RDA.<sup>13</sup>

Although the Commission has approved NERC's delegation of authority to develop and enforce compliance with reliability standards in the ERCOT Region to Original Texas RE, the Commission has expressed concerns over the fact that Original Texas RE is a division of ERCOT and therefore, as the Regional Entity, is responsible to monitor and enforce compliance with reliability standards by the ERCOT ISO, which is a registered entity. Most recently, such concerns were expressed in the report of the Commission's Office of Enforcement entitled *Audit of Regional Entity Independence of Texas Regional Entity* ("Original Texas RE Audit Report") and in the Commission's Order issued January 8, 2010, in Docket No. PA09-6-000 approving the Original Texas RE Audit Report.<sup>14</sup> In summarizing the findings in the Original Texas RE Audit Report, the Commission stated:

The Report found that Texas RE has taken significant measures to ensure that a sufficient separation exists between the functions of Texas RE and ERCOT ISO. However, the Report identified some areas of concern that Texas RE must address to eliminate remaining independence concerns and foster a "very strong" separation of Texas RE and ERCOT ISO, as contemplated by Order No. 672.<sup>15</sup>

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<sup>12</sup> *Order Addressing Revised Delegation Agreements*, 122 FERC ¶ 61,245 (2008) ("Third Delegation Agreements Order"); *Order Accepting Compliance Filings, Subject to Conditions*, 125 FERC ¶ 61,330 (2008); *Order on Compliance Filing*, 127 FERC ¶ 61,209 (2009) (the 2009 order did not involve any revisions to the delegation agreement with Original Texas RE).

<sup>13</sup> *Order Approving Petition*, 129 FERC ¶ 61,026 (2009).

<sup>14</sup> *Order Approving Audit Report, Determining Issue of Separation of Functions, and Directing Compliance and Other Corrective Actions*, 130 FERC ¶61,025 (2010) ("Original Texas RE Audit Report Order").

<sup>15</sup> Original Texas RE Audit Report Order at P 3 (footnote omitted). Order No. 672 is *Rules Concerning Certification of the Electric Reliability Organization; and Procedures for the*

In light of the concerns expressed by Commission audit staff in the Original Texas RE Audit Report and by the Commission in the Original Texas RE Audit Report Order and in other venues with respect to Original Texas RE's independence and separation from ERCOT, Original Texas RE and its stakeholders developed plans to form a new corporation that would be legally separate from ERCOT, to take over the role of Regional Entity in the ERCOT Region.<sup>16</sup> The Commission Staff auditors conducting the audit of Original Texas RE were made aware of these plans, and these plans were referred to in the Original Texas RE Audit Report and the Original Texas RE Audit Report Order. In the Original Texas RE Audit Report Order, the Commission stated:

Texas RE has agreed to, or has already begun to, undertake all of the recommended corrective actions in the December 10, 2009 final [audit] report. In addition, of particular note, Texas RE is in the process of forming a new and separate legal entity to serve as the Regional Entity.<sup>17</sup>

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[W]e note that, as stated in the Report, some of the concerns raised above would not exist if Texas RE goes forth with its plans to structurally separate from ERCOT. In that regard, the Commission commends Texas RE for proposing to proactively address independence concerns identified through the audit in the most effective manner, i.e., structural separation.<sup>18</sup>

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*Establishment, Approval and Enforcement of Electric Reliability Standards*, FERC Stats. & Regs. ¶ 31,204 (2006).

<sup>16</sup> Original Texas RE has been aware of the Commission's continuing "independence" and "separation" concerns, and has been engaged in development and implementation of plans to form New Texas RE, for a considerable period of time. The field work leading to the Original Texas RE Audit Report was largely conducted during 2009, and the audit staff advised Original Texas RE of tentative audit findings and recommendations in September 2009 (*see, e.g.*, the Original Texas RE Audit Report Order at P 3). As described in greater detail in §V of this petition, the plans for formation of New Texas RE have been under way since at least June 2009.

<sup>17</sup> Original Texas RE Audit Report Order at P 4.

<sup>18</sup> Original Texas RE Audit Report Order at P 17.

The plans for formation of a separate corporation to become the Regional Entity in the ERCOT Region have now progressed nearly to completion with the formation of Texas Reliability, Inc., the adoption of its Bylaws, the selection of an initial Board of Directors, the development of an Amended 2010 Business Plan and Budget, the negotiation of the New Texas RE RDA with NERC, and the approval of the New Texas RE RDA and the New Texas RE Amended 2010 Business Plan and Budget by the Boards of New Texas RE and of NERC.

**B. Compliance with FPA §215(e)(4) and 18 C.F.R. §39.8; New Texas RE Governance**

Under its Bylaws, New Texas RE is governed by a combination independent and balanced stakeholder board (sometimes referred to as a “hybrid” board), thereby satisfying the requirement of §215(e)(4)(A)(i) of the FPA and 18 C.F.R. §39.8(c)(1). New Texas RE will also otherwise satisfy the provisions of §215(c) of the FPA. Finally, the proposed New Texas RE RDA will promote effective and efficient administration of bulk-power system reliability. Because New Texas RE is organized on an interconnection-wide basis, NERC is required to presume, and the Commission is required to rebuttably presume, that the proposed delegation of statutory authority to New Texas RE will promote effective and efficient administration of bulk-power system reliability and should be approved.<sup>19</sup>

The Commission has previously approved NERC’s delegation of authority to Original Texas RE, and the Original Texas RE RDA, as meeting the requirements of §215(e)(4) of the FPA and 18 C.F.R. §39.8.<sup>20</sup> Accordingly, NERC submits that only the material changes from the Original Texas RE RDA to the New Texas RE RDA need to be examined to determine if the New Texas RE RDA, and the delegation of authority to New Texas RE as the Regional Entity

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<sup>19</sup> 18 C.F.R. §39.8(e).

<sup>20</sup> See citations to prior Commission Orders in footnotes 11, 12 and 13 above.

for the ERCOT Region, satisfy the requirements of the FPA and the Commission's regulations and should be approved. Section III.C below provides a section-by-section discussion of the New Texas RE RDA. The only significant, substantive differences between the Original Texas RE RDA and the New Texas RE RDA are in Exhibit B – Governance.<sup>21</sup> The governance of New Texas RE RDA is based on the Bylaws it has adopted, which are included in Exhibit B to the New Texas RE RDA; whereas the governance of Original Texas RE is based on relevant provisions in the ERCOT Bylaws. NERC has determined that the governance structure of New Texas RE satisfies the applicable requirements of §215 and 18 C.F.R. §39.8. The following paragraphs describe the governance of New Texas RE as provided for in its Bylaws.

New Texas RE is organized as a Texas non-profit corporation and is a membership corporation.<sup>22</sup> Membership in New Texas RE is voluntary and is open to any entity that is a user, owner or operator of the ERCOT Region Bulk Power System, registers with New Texas RE as a member, maintains its registration in accordance with Article III of the Bylaws, and complies with other conditions and obligations of membership specified in the Bylaws.<sup>23</sup> The obligations and conditions of membership include that a member must agree to promote, support and comply with reliability standards and assist New Texas RE in its compliance with its delegation agreement with NERC; to hold harmless all directors, officers, employees and agents of New Texas RE, as well as volunteers participating in good faith in the activities of New Texas RE, for any injury or damage caused by an act or omission in the course of performance of duties on

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<sup>21</sup> There are also changes to the New Texas RE Standards Development Process from the original Texas RE Standards Development Process, but these changes are largely to conform to recently-approved amendments to the NERC Reliability Standards Development Procedure. *See* §III.C.4 of this petition.

<sup>22</sup> New Texas RE Bylaws, Article II, Sec. 2 and Article III, Sec. 1.

<sup>23</sup> New Texas RE Bylaws, Article III, Sec. 1.

behalf of New Texas RE, other than for willful acts of misconduct; and, consistent with applicable laws and regulations, to share non-proprietary information at New Texas RE's request as necessary for the furtherance of its activities and consistent with NERC, Public Utilities Commission of Texas ("PUCT") and any other applicable rules relating to confidentiality.<sup>24</sup> However, membership in New Texas RE is not a condition to participation in the development or consideration of proposed regional reliability standards.<sup>25</sup>

Members must pay an annual membership fee of \$250; the fee is intended to offset expenses of membership qualification, coordination and meetings. The Board may change the amount of the membership fee, and may waive the membership fee for any member for good cause shown.<sup>26</sup>

The membership is divided into six Sectors; each member must elect to be assigned to one Sector. The Sectors are: System Coordination and Planning (an entity registered with NERC as a Reliability Coordinator, Balancing Authority, Planning Authority, Resource Planner or Interchange Authority); Transmission and Distribution (an entity registered as a Transmission Owner, Transmission Planner, Transmission Service Provider, Distribution Provider, and/or Transmission Operator and is not a Cooperative or Municipal Utility); Cooperative; Municipal Utility; Generation (an entity registered as a Generator Owner or Generator Operator); and Load-Serving and Marketing (an entity registered as a Load-Serving Entity, a Purchasing-Selling Entity, or any newly-defined NERC reliability function for demand response).<sup>27</sup>

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<sup>24</sup> New Texas RE Bylaws, Article III, Sec. 3.

<sup>25</sup> New Texas RE Bylaws, Article III, Sec. 1.

<sup>26</sup> New Texas RE Bylaws, Article III, Sec. 6.

<sup>27</sup> New Texas RE Bylaws, Article III, Sec. 4.



New Texas RE has a hybrid Board of Directors, with the following composition:

- Four independent directors;
- The Chief Executive Officer (“CEO”) of New Texas RE (also referred to as the Management Director);
- Two stakeholders – the Chair and Vice-Chair of the Member Representatives Committee (“MRC”, discussed below);
- The Chair of the PUCT, or another PUCT member designated by the Chair, as an *ex officio*, non-voting Board member; and
- The Public Counsel from the Texas Office of Public Utility Counsel (“OPUC”), or another employee of the OPUC as designated by the Public Counsel, also as an *ex officio*, non-voting Board member.<sup>28</sup>

An independent director cannot be an officer or employee of New Texas RE, a NERC registered entity, a member of New Texas RE or an officer, director or employee of a member, or an officer, director or employee of any company or entity that would reasonably be perceived as having a direct financial interest in the outcome of Board decisions or a relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director.<sup>29</sup> The qualifications of the independent directors include experience in one or more of the fields of senior corporate leadership, finance, accounting, engineering, bulk power systems, law, regulation of utilities, and/or risk management; and independence of any NERC registered entity including ERCOT ISO and any ERCOT Region Market Participant (further requirements

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<sup>28</sup> New Texas RE Bylaws, Article IV, Sec. 1. The Bylaws also provide for Initial Directors, defined as the directors named in the corporation’s Certificate of Formation and seated for formation of the corporation. New Texas RE Bylaws, Article I, Sec. 1(j). The Initial Directors may conduct only organizational business of New Texas RE, including approving the Bylaws, authorizing the opening of a bank account, appointing officers, approving a delegation agreement with NERC, and reviewing and approving New Texas RE’s business plan and budget. New Texas RE Bylaws, Article VI, Sec. 3.

<sup>29</sup> New Texas RE Bylaws, Article I, Sec. 1(i).

of “independence” are detailed in the Bylaws).<sup>30</sup> Additionally, the Bylaws contain provisions requiring disclosure of conflicts of interest, and recusal from participation in matters involving a conflict of interest, by directors.<sup>31</sup>

Independent director candidates (except for the Initial Directors) are nominated by a Nominating Committee appointed by the Board, and elected by the members voting by Sectors. The Nominating Committee is to select and nominate, by two-thirds majority vote, qualified candidates consistent with the objectives that the Board as an entirety shall reflect expertise in the areas of technical electric operations and reliability, legal, senior corporate leadership, financial, risk management, regulatory matters, and familiarity with regional system operation issues in the ERCOT Region. Independent directors must be elected by majority vote of the membership Sectors.<sup>32</sup> Independent directors (other than the Initial Directors and the originally elected directors) will serve staggered three-year terms; an independent director may be elected for up to three consecutive terms (not including any service as an Initial Director).<sup>33</sup>

The New Texas RE Bylaws provide for an MRC, which shall provide advice and recommendations to the Board with respect to annual budgets, business plans and funding mechanisms; other matters relevant to reliability of the ERCOT bulk-power system, and other matters pertinent to the purpose and operations of New Texas RE.<sup>34</sup> The MRC consists of two representatives of each membership Sector elected by the members in that Sector, provided,

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<sup>30</sup> New Texas RE Bylaws, Article IV, Sec. 2.

<sup>31</sup> New Texas RE Bylaws, Article XIV, Sec. 1.

<sup>32</sup> New Texas RE Bylaws, Article IV, Sec. 2(c).

<sup>33</sup> New Texas RE Bylaws, Article IV, Sec. 2(b).

<sup>34</sup> New Texas RE Bylaws, Article IX, Sec. 1.

however, that for a Sector that has only one member, only one officer, director or employee of that member can be a representative from that Sector to the MRC. A representative of a Sector must be an officer, employee or director of a member in that Sector. The Sector representatives on the MRC serve annual terms.<sup>35</sup> The MRC shall annually select a Chair and Vice-Chair from among the representatives; the Chair and Vice Chair cannot be representatives from the same Sector and cannot currently serve on the board of the ERCOT ISO.<sup>36</sup>

Following are the quorum and voting requirements for meetings and other actions of the members, the Board and the MRC of New Texas RE (in each case unless otherwise required by the Certificate of Formation, the Bylaws or applicable law):

- **Members:** A quorum requires attendance in person or by proxy of two-thirds of the members. Voting is by Sector, with each Sector having one vote determined by majority vote of the members of the Sector voting; and approval of an action by the members requires the affirmative vote of a majority of the Sectors.<sup>37</sup>
- **Board of Directors:** A quorum requires a majority of the voting directors, in person or by proxy, including at least three independent directors. Approval of an action requires the affirmative vote of a majority of the directors present and voting in person or by proxy, but in no case less than four votes.<sup>38</sup>
- **MRC:** A quorum requires the presence, in person or by proxy, of two-thirds of the voting representatives on the MRC. Approval of an action requires the affirmative vote of a majority of the voting members of the MRC present and voting, with each representative having one vote.<sup>39</sup>

The quorum and voting requirements for the members and for the MRC ensure that no two Sectors can approve, and no single Sector can veto, a proposed action. The quorum and voting

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<sup>35</sup> New Texas RE Bylaws, Article IX, Sec. 2 and 3.

<sup>36</sup> New Texas RE Bylaws, Article IX, Sec. 4.

<sup>37</sup> New Texas RE Bylaws, Article V, Sec. 2.

<sup>38</sup> New Texas RE Bylaws, Article VI, Sec. 3.

<sup>39</sup> New Texas RE Bylaws, Article IX, Sec. 8.

requirement for the Board ensures that no action can be approved without the affirmative vote of at least one independent director, and that in no event can an action be approved based solely on the votes of the two stakeholder directors.

The provisions of the New Texas RE Bylaws concerning meetings of the members, the Board of Directors and the MRC include requirements for advance notice and openness, including posting of advance notice of the date, time and place of the meeting and of non-confidential materials provided to the members, the directors or the MRC prior to the meeting, and requirements for the meetings to be open, subject to the right of the body to go into closed session to discuss non-public information such as compliance and enforcement matters, personnel matters, critical infrastructure information, or commercially sensitive information.<sup>40</sup>

The New Texas RE Bylaws authorize the Board of Directors to create standing committees and other committees, to specify their scopes and duties, and to appoint members to such committees and to such other subcommittees, task-forces and Sector-specific forums as the Board deems necessary or desirable to carry out the purposes of New Texas RE. The Board is to appoint members to the standing committees and other committees that are representative of the members of New Texas RE, other interested parties and the public, that provide for balanced decision-making, and that include persons with sufficient technical knowledge and experience.<sup>41</sup> However, the Bylaws provide separately for a Reliability Standards Committee, which shall operate in accordance with the New Texas RE Standards Development Process as set forth in Exhibit C to the New Texas RE RDA and approved by the Commission.<sup>42</sup>

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<sup>40</sup> New Texas RE Bylaws, Article V, Sec. 1(b) and 5; Article VI, Sec. 2, 4 and 6; Article IX, Sec. 6.

<sup>41</sup> New Texas RE Bylaws, Article X.

<sup>42</sup> New Texas RE Bylaws, Article VIII.

The New Texas RE Bylaws may be amended through the following process: Any director or member may submit a proposed amendment to the CEO. The CEO must place the proposed amendment on the agenda for a Board of Directors meeting within 95 days of receipt of the request. If the Board approves the proposed amendment, it will be placed on the agenda for the next annual meeting of members or a special meeting of members called by the Board, or submitted to the members for approval through the action without a meeting procedure. If the proposed amendment is approved by the members, it is adopted. If the proposed amendment is not approved by the Board, the members may nonetheless call a meeting to vote on the amendment, at which the affirmative vote (or written consent) of five of the six Sectors is required for approval of the amendment.<sup>43</sup>

Based on review of the Bylaws of New Texas RE, as summarized above, NERC has concluded that that New Texas RE meets the five Governance criteria specified in Exhibit B to the *pro forma* delegation agreement:

**Criterion 1:** The Regional Entity shall be governed by an independent board, a balanced stakeholder board, or a combination independent and balanced stakeholder board.

**Criterion 2:** The Regional Entity has established rules that assure its independence of the users and owners and operators of the bulk power system, while assuring fair stakeholder representation in the selection of its directors.

**Criterion 3:** If the Regional Entity has members, the Regional Entity has established rules that assure that its membership is open, that it charges no more than a nominal membership fee and agrees to waive the fee for good cause shown, and that membership is not a condition for participating in the development of or voting on proposed Regional Reliability Standards.

**Criterion 4:** The Regional Entity has established rules that assure balance in its decision-making committees and subordinate organizational structures and assure no two industry sectors can control any action and no one industry sector can veto any action.

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<sup>43</sup> New Texas RE Bylaws, Article XII.

**Criterion 5:** The Regional Entity has established rules that provide reasonable notice and opportunity for public comment, due process, openness, and balance of interests in exercising its duties.

Two remaining requirements of §215(e)(4) and 18 C.F.R. §39.8 for approval of a delegation agreement that are not addressed in the New Texas RE Bylaws are that the regional entity (1) allocates equitably reasonable dues, fees and other charges among end users for the regional entity's delegated activities, and (2) provides fair and impartial procedures for enforcement of reliability standards through the imposition of penalties (including limitations on activities, functions, or operations, or other appropriate sanctions). However, as discussed in §III.C below, these requirements are addressed in provisions of the New Texas RE RDA that have not been changed in any material respect from the Original Texas RE RDA.<sup>44</sup> Additionally, as also discussed in §III.C, except for revisions to conform to recently-approved amendments to the NERC Reliability Standards Development Procedure, the New Texas RE Standards Development Process included in Exhibit C to the New Texas RE RDA is substantially the same as the Original Texas RE Standards Development Process included in Exhibit C to the Original Texas RE RDA, and provides for reasonable notice and opportunity for public comment, due process, openness, and balance of interests in developing regional reliability standards.<sup>45</sup>

### **C. Comparison of New Texas RE RDA to Original Texas RE RDA**

This section identifies the differences between the proposed New Texas RE RDA and the Original Texas RE RDA which the Commission has approved. **Attachment 2** to this petition is a redline of the new Texas RE RDA against the Original Texas RE RDA.

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<sup>44</sup> See Section 6, Enforcement; Section 8, Funding; Exhibit D – Compliance Monitoring and Enforcement Program; and Exhibit E – Funding, of the New Texas RE RDA.

<sup>45</sup> As noted earlier, the current version of the Original Texas RE Standards Development Process was approved by the Commission in an Order issued November 2, 2009. *Order Approving Petition*, 129 FERC ¶ 61,026 (2009).

## 1. Base Delegation Agreement

In Section 2(a)(i) of the New Texas RE RDA, there is a revision from the Original Texas RE RDA to reflect that Exhibit B contains the complete Bylaws of New Texas RE. Exhibit B to the Original Texas RE RDA contains relevant portions of the ERCOT Bylaws<sup>46</sup>, as Original Texas RE does not have a separate set of bylaws; the complete ERCOT Bylaws are provided “for informational purposes only” in Attachment 1 to Exhibit B to the Original Texas RE RDA.

Section 4(a) of the New Texas RE RDA contains the following addition (underscored) to the text of the Original Texas RE RDA:

Based upon the representations, warranties and covenants of Texas RE in Sections 2 and 3 above, the corporate governance documents set forth in **Exhibit B**, the standards development process set forth in **Exhibit C**, and the regional compliance enforcement program set forth in **Exhibit D**, NERC hereby delegates authority, pursuant to Section 215(e)(4) of the Act, to Texas RE for the purpose of proposing Reliability Standards to NERC, as set forth in Section 5 of this Agreement, and enforcing Reliability Standards, as set forth in Section 6 of this Agreement, within the geographic boundaries set forth on **Exhibit A**. Without limiting the scope of the foregoing delegation, as of the effective date of this Agreement, Texas RE is delegated authority and responsibility for continuation of all compliance monitoring and enforcement activities formerly delegated to and conducted by Texas Regional Entity, a division of Electric Reliability Council of Texas, Inc. (“ERCOT”) prior to the effective date, including without limitation: all compliance audits, spot checks, self-certifications, self-reports, compliance violation investigations, investigations of complaints, investigations and processing of possible violations and alleged violations and imposition of penalties or sanctions for violations, review, acceptance or rejection, and oversight of completion of settlement agreements with and mitigation plans of registered entities, and receipt, review, acceptance or rejection, approval or disapproval, and ongoing monitoring, of Technical Feasibility Exceptions requested by registered entities to certain Requirements of Critical Infrastructure Protection Standards. No further redelegation of authority or responsibility, in total or in part, under this Agreement is allowed without NERC’s express consent.

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<sup>46</sup> The Commission ruled in P 156 of the Third Delegation Agreements Order that only those provisions of ERCOT’s Bylaws that pertained to Original Texas RE’s performance of its regional entity functions were subject to NERC’s approval. For this reason, the complete ERCOT Bylaws are not provided in Exhibit B to the Original Texas RE RDA, but are provided “for informational purposes only” in Attachment 1 to Exhibit B.

The added text is intended to make it clear that New Texas RE is being delegated authority to take responsibility for, and complete, all compliance monitoring and enforcement activities concerning registered entities in the ERCOT Region that were initiated by Original Texas RE and are still in progress as of the effective date of the New Texas RE RDA and termination of the Original Texas RE RDA. NERC and New Texas RE, with the assistance of Original Texas RE, will prepare a separate “closing” document listing all compliance monitoring and enforcement activities that were initiated by Original Texas RE and are still in progress as of the effective date of the New Texas RE RDA. Preparation of this document will ensure that no pending compliance monitoring and enforcement activity concerning a registered entity is lost in the transition from Original Texas RE to New Texas RE as the Regional Entity for the ERCOT Region.

In Section 11, Term and Termination, of the New Texas RE RDA, subsection (a) provides a blank effective date for the agreement and a blank for the date of the Commission’s Order approving the New Texas RE RDA. Subsection (b) states that the initial term of the New Texas RE RDA shall be from the effective date until May 2, 2011. The Commission recently granted NERC’s petition for approval of an amendment to the current delegation agreements to extend their initial terms by one year, to May 2, 2011, in order to provide NERC and the Regional Entities sufficient time to negotiate a new *pro forma* delegation agreement, to file the revised delegation agreements with the Commission for approval, and to obtain a Commission Order approving them.<sup>47</sup> It is the intention of NERC, New Texas RE and the other Regional

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<sup>47</sup> See Letter Order approving Petition for Approval of Amendment to Delegation Agreements with Regional Entities to Extend Initial Term of Agreements to May 2011, issued January 14, 2010, in Docket No. RR-10-2-000.



Entities that on or before May 2, 2011, the current delegation agreements will be replaced with a new set of delegation agreements approved by the Commission.

The other revisions in the base delegation agreement portion of the New Texas RE RDA from the Original Texas RE RDA are non-substantive or conforming changes, including changing the name of the regional entity from “Texas Regional Entity, a division of Electric Reliability Council of Texas, Inc.” to “Texas Reliability Entity, Inc.,” changing the names and addresses for notice (Section 18), changing the signature blocks, and correcting a typographical error in Section 14.

## **2. Exhibit A – Regional Boundaries**

There are no substantive differences between Exhibit A to the New Texas RE RDA and Exhibit A to the Original Texas RE RDA. The ERCOT Region as described in both Exhibit A’s is the same.

## **3. Exhibit B – Governance**

Exhibit B to the Original Texas RE RDA consists of the five “Governance” criteria, each of which is followed by a narrative discussion of how Original Texas RE meets the criterion, including references to and excerpts from relevant provisions of the ERCOT Bylaws. Exhibit B to the Original Texas RE RDA also includes, as Attachment 1, a complete set of the ERCOT Bylaws, which is “provided for informational purposes only.” In contrast, Exhibit B to the New Texas RE RDA follows the format of the *pro forma* delegation agreement. Exhibit B to the New Texas RE RDA contains the statement that “Exhibit B shall set forth the Regional Entity’s bylaws, which NERC agrees demonstrates that the Regional Entity meets the following criteria;” lists the five Governance criteria and the provisions of §215 of the FPA, 18 C.F.R. §39.8 and Order No. 672 on which each criterion is based; and then contains a complete copy of the New

Texas RE Bylaws. New Texas RE's governance as embodied in its Bylaws is discussed in detail in §III.B above.

#### **4. Exhibit C – Regional Standard Development Procedure**

Exhibit C to the Original Texas RE RDA lists the 34 common attributes of an acceptable regional standards development procedure, and provides after each common attribute a discussion of how the ERCOT/Original Texas RE Standards Development Process satisfies that attribute. A copy of the Original Texas RE Standards Development Process is included in Exhibit C. In contrast, Exhibit C to the New Texas RE RDA follows the format of the *pro forma* delegation agreement. Specifically, Exhibit C states that “Exhibit C shall set forth the Regional Entity’s standards development procedure, which NERC agrees meets the following common attributes,” and then lists the 34 common attributes. The 34 common attributes have been customized to specifically describe the New Texas RE Standards Development Process.

The revisions to the common attributes in Exhibit C to the New Texas RE RDA include the deletion, in Common Attribute 34, of “Violation severity levels” (“VSL”) from the components of the compliance monitoring process that are to be defined for each measure in a regional reliability standard. This deletion is consistent with the recent revision to the NERC Standards Development Procedure (Appendix 3A to the NERC Rules of Procedure) which removed VSLs (and Violation Risk Factors (“VRF”)) from the components of a reliability standard that are developed through the standards development process, including balloting by the ballot pool, and instead are approved by the NERC Board of Trustees based on advice and recommendations of the NERC staff, an advisory ballot, and other considerations.<sup>48</sup> The New

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<sup>48</sup> The Commission approved these and other revisions to the NERC Reliability Standards Development Procedure in an Order issued February 5, 2010. *See* Letter Order approving

Texas RE Standards Development Process incorporates a similar process for development of VSLs and VRFs for regional standards.

The following paragraphs identify the differences between the New Texas RE Standards Development Process (included in Exhibit C to the New Texas RE RDA) and the Original Texas RE Standards Development Process (included in Exhibit C to the Original Texas RE RDA). **Attachment 2** to this petition includes a redline of the New Texas RE Standards Development Process against the Original Texas RE Standards Development Process.<sup>49</sup>

In Section III, Regional Standards Definition, the reference to “Regional Criteria” has been deleted; and the description of “Regional Variances” has been revised to read as follows: “Regional Variances that allow an alternative approach to meeting the same reliability objective as the NERC Reliability Standard and are typically necessitated by physical differences.” The two types of documents that may be developed through the New Texas RE Standards Development Process are “Regional Standards that go beyond, add detail to, or implement NERC Reliability Standards,” and “Regional Variances” (as described above).

In Section IV, Roles in the Texas RE Regional Standards Development Process, the description of the Registered Ballot Body (“RBB”) has been changed to the following:

**Registered Ballot Body (RBB)** – The Registered Ballot Body is comprised of all entities or individuals (whether or not they are Texas RE corporate members) that are ERCOT region BPS owners, operators, and users and qualify for one of the below-listed Texas RE Standards Development Sectors and are registered with the Texas RE as potential ballot participants.

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Petition for Approval of Amendments to Appendix 3A of the NERC Rules of Procedure and to the Reliability Standards Development Procedure, Docket No. RR10-4-000, February 5, 2010.

<sup>49</sup> The most recent amendments to the Original Texas RE Standards Development Process were approved by the Commission in an order issued November 2, 2009. *Order Approving Petition*, 129 FERC ¶ 61,026 (2009).

References to and description of the Reliability and Operations Subcommittee (“ROS”) has been eliminated; the ROS is not part of the New Texas RE Standards Development Process. Throughout the New Texas RE Standards Development Process, various responsibilities of the ROS under the Original Texas RE Standards Development Process are assigned to the Reliability Standards Committee (“RSC”) or the Reliability Standards Manager (“RSM”). The description of the RSC is changed to the following:

**Reliability Standards Committee (RSC)** – A balanced committee comprised of entities representing the six Texas RE Standard Development Sectors. The RSC will consist of two representatives from each Sector (except that Sectors with only one member may only have one representative), as elected by the Sector, and the RSC requires a quorum of at least one representative from at least two-thirds (2/3) of the Sectors to take action. The RSC in coordination with the Reliability Standards Manager will review, participate in, and manage the Texas RE Regional Standards Development Process, and develop Texas RE Regional Standards on a schedule as directed by NERC and as needed per the reliability related needs of the ERCOT Region. Where necessary or appropriate, the RSC will coordinate the development of Texas RE Regional Standards and Regional Variances with the development of national standards appearing in the NERC work plan, and the RSC will coordinate and submit comments as a group, to the extent feasible. The RSC will also review FERC Orders pertaining to standards and standards development activities to ensure directives are addressed in regional standards development.

Additionally, the description of the RSM has been modified to state that the RSM’s duties include management of the Standard Drafting Team (“SDT”), and the facilitation of RSC meetings.

Section IV lists and defines the six Texas RE Standards Development Sectors.<sup>50</sup> The six Sectors are: (1) System Coordination and Planning, (2) Transmission, (3) Cooperative or Utility, (4) Municipal Utility, (5) Generation, and (6) Load-Serving and Marketing.

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<sup>50</sup> The Original Texas RE Standards Development Process provides for seven “ERCOT Market Participant Segments.”

Section V of the New Texas RE Standards Development Process sets out the details of the process. In Section V.B, Regional Standards Development Process Steps, Step 1 has been revised to specify that a Standard Authorization Request (“SAR”) can be submitted by “Any entity (Originator) that is directly or materially impacted by the operation of the BPS (including all users, owners, and operators of the BPS and regardless of whether the entity is a Texas RE member)”, rather than specifically listing the types of entities that can submit a SAR, as in the Original Texas RE Standards Development Process. Step 1 has also been revised to require that a SAR be submitted “in electronic format.” Additionally, Step 1 now provides for posting of adequately completed SARs on the Texas RE website for a 15-day comment period; and provides for the RSC, if it deems it necessary, to post the SAR for a second 15-day comment period. Step 1 has been further revised to allow the Texas RE Board, in its discretion, to direct the RSC to reconsider any SAR that has been rejected.

Step 2, Formation of the Standard Drafting Team and Declaration of Milestone Date, has been revised to provide that the RSM is to solicit drafting team nominees “by announcing the opening of nominations to the stakeholders in the region.” Step 2 now also expressly provides that the RSM is to “manage the SDT” to ensure that “the Texas RE Standards Development Process is followed.” The RSM is authorized to “develop additional guidelines to assist the SDT”, but “as a general rule, the RSM will follow the then-current NERC SDT Guidelines and associated NERC SDT procedures in the management of the regional SDTs.” Additionally, Step 2 now specifies that the membership of the SDT shall not include more than one individual from any one entity. Finally, the provision has been deleted that “the RSC will declare a preliminary date on which the SDT is expected to have ready a completed draft Regional

Standard and associated supporting documentation available for comments” (see Step 3 immediately below).

Step 3, Work and Work Product of the Standard Drafting Team, has been revised to provide that the RSM and the SDT will develop a work plan and submit it to the RSC, and based upon this plan, the RSC will declare a preliminary date on which a completed draft Regional Standard and associated supporting documentation will be available for comment. The description of the work product to be generated by the SDT has been revised to include identification of any existing regional criteria, protocol or rule that may be deleted or impacted by the implementation of the draft Regional Standard, and a draft of recommended VRFs and VSLs for the standard,<sup>51</sup> to be developed in coordination with New Texas RE staff. Finally, Step 3 has been revised to remove the authority of the RSC to post competing drafts of the Regional Standard for comment, and to add the following provision:

Any interested entity (including the Originator and the RSM) that contends that the SDT is not effectively progressing on a draft standard or variance may notify the RSC. If any entity contends that the RSC has not taken timely action regarding any requested standard, the entity may file a written complaint with the RSM, who will notify the RSC. If the RSC cannot resolve the complaint within sixty days, the complaining entity may request that its complaint be included on the RSM’s report to the Texas RE BOD.

In Step 5, Comment Posting Period, revisions have been made to specify that the SDT shall prepare a formal written response to every comment received on a posted draft standard;

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<sup>51</sup> Consistent with the recently-approved revisions to the NERC Reliability Standards Development Procedure, there are revisions throughout the New Texas RE Standards Development Process from the Original Texas RE Standards Development Process, to implement the change from VSLs and VRFs being part of a reliability standard that is developed through the standards development process including balloting by the ballot pool, to a component that is developed through a separate process and approved by the New Texas RE Board, not through balloting. These revisions and additions generally track the recent amendments to the NERC Reliability Standards Development Procedure on this topic.

and that the SDT's "modification report" must summarize the SDT's responses to the comments received on the draft standard.

Step 5, Posting for Voting by the Registered Ballot Pool, has been revised to specify that "[e]ach member of the RBB will be allowed the opportunity to join a single ballot pool to participate in the determination of the approval of the Regional Standard and to provide input to the 'non-binding poll' on the VRFs and VSLs associated with the Regional Standard." Step 5 further provides that each of the six Sectors will have two Sector votes and that a quorum for balloting requires that at least one representative from at least four of the six Sectors must vote. Finally, the following provision is added to Step 5 concerning the non-binding poll on VSLs and VRFs:

The "poll" taken on the violation risk factors and violation severity levels is "non-binding." The results of this poll will be reported to the Texas RE BOD and considered by Texas RE staff in forming its recommendations. The results of the poll are one element for the Texas RE BOD to consider when making a determination of whether to approve the compliance elements of the standards. The results of the poll do not determine whether these compliance elements are "approved." In addition, if stakeholder comments submitted with the non-binding poll indicate specific improvements that would improve consensus, then the SDT, working with the Texas RE staff, will revise the VRFs and VSLs to reflect stakeholder comments before the VRFs and VSLs are submitted to the Texas RE BOD.

In Steps 6A and 6B, references to a 2/3 vote as "4.83 segment votes – 2/3 of 7.25" have been deleted, as this calculation is applicable to the Original Texas RE Standards Development Process but not to the New Texas RE Standards Development Process (which involves only six voting Sectors). Additionally, in Step 6B, the following has been deleted from the list of options available to the RSC for a proposed Regional Standard that does not receive 2/3 affirmative votes of the Sectors in the balloting process: "Recommend termination of all work on the development of the Regional Standard action under consideration and so notify the Texas BOD."

In Step 7, Action by the Texas RE Board of Directors, the revisions from the Original Texas RE Standards Develop Process all pertain to the change to the approval process for VSLs and VRFs, and are similar to the recently-approved amendments to the NERC Reliability Standards Development Procedure on this topic. The revisions provide for the Texas RE Board to approve a set of VSLs and VRFs for a proposed Regional Standard, based on the recommendations of the Texas RE staff, the results of the non-binding poll, stakeholder comments, consistency with other standards, and other enumerated factors.

Appendix A to the New Texas RE Standards Development Process specifies the composition of the RSC, the New Texas RE Board of Directors, and the RBB. The RSC is comprised of two representatives from each of the six Sectors (which were enumerated earlier), except for Sectors with only one member, which will have only one representative. At least one representative from at least two-thirds of the Sectors is required for a quorum of the RSC. The New Texas RE Board of Directors has the composition specified in the New Texas RE Bylaws (*see* §III.B above). The description of the Texas RE Board deletes the following text that is included in the Original Texas RE Standards Development Process: “Although the Texas RE BOD will have the final vote on proposed Regional Standards and Regional Variances, the Texas RE BOD will not have involvement in Regional Standard compliance and enforcement activities.” The description of the RBB deletes the references to the “Segments” in the Original Texas RE Standards Development Process, which are different from the Sectors in the New Texas RE process. The quorum requirement for the RBB is at least one vote from at least two-thirds of the Sectors, with each Sector having one Sector vote, and each participating voting entity in a Sector having one vote that is an equal fraction of the Sector’s vote.



In Appendix B – Principles, Characteristics and Special Procedures of the New Texas RE Standards Development Process, there are no substantive revisions in Section I, Principles, from the Original Texas RE Standards Development Process. In Section II, Regional Standard Characteristics and Elements, an unnecessary reference to “Market Operators” is deleted from the list of NERC registered entity reliability functions in II.a.1. In Section II.b, Elements of a Regional Standard, “Risk Factors” is eliminated from the “Performance Elements of a Regional Standard,” consistent with the recently-approved amendments to the NERC Reliability Standards Development Procedure. In addition, Table 2 – Compliance Elements of a Regional Standard, is revised to separately identify and describe (i) compliance elements that are developed by the SDT and balloted with the Regional Standard, and (ii) compliance elements that are developed by the SDT working with New Texas RE staff but are not considered to be part of the standard – specifically, VSLs and VRFs. These revisions are, again, substantially identical to the recently-approved amendments to the NERC Reliability Standards Development Procedure on this topic.

Section III, Maintenance of the Texas RE Regional Standards Development Process, of Appendix B is revised to state that “Significant changes to this process which are not made as part of a Texas RE request for an amendment to the Delegation Agreement shall begin with the preparation of a SAR and be addressed using the same procedure as a request to add, modify, or delete a Regional Standard.”

Section VI, Interpretations of Regional Standards, of Appendix B has been revised to state that interpretations of Regional Variances as well as of Regional Standards can be requested. Section VI is also revised to require submission of a request for interpretation using an electronic request form.

The process diagrams in Appendix D to the New Texas RE Standards Development Process have been revised from the process diagrams in the Original Texas RE Standards Development Process to reflect the changes in process steps and terminology as described above.

Finally, throughout the New Texas RE Standards Development Process, non-substantive revisions have been made from the Original Texas RE Standards Development, such as the following: (i) name change from “Texas Regional Entity” to “Texas Reliability Entity”; (ii) change of references to “Chief Compliance Officer” (an Original Texas RE position) to “Chief Executive Officer”; (iii) change of the term “Segments” to “Sectors”; (iv) use of defined acronyms such as “FERC”, “RSC” and RBB” rather than the full term; and (v) grammatical corrections (“which” – “that”) and tense changes.

#### **5. Exhibit D – Compliance Monitoring and Enforcement Program**

In Exhibit D to the New Texas RE RDA and Attachments 1 and 2 thereto, references to “Chief Compliance Officer” have been changed to “Board of Directors” (or “Board”). Whereas the Chief Compliance Officer of Original Texas RE is the final decisional authority (at the Regional Entity level) in the Original Texas RE compliance monitoring and enforcement program (“CMEP”), the final decision authority in the New Texas RE program will be its Board of Directors. A compliance committee of the Board may also be designated to be the decisional authority.<sup>52</sup> As with Original Texas RE, the PUCT will be the Hearing Body for New Texas RE.

Because the New Texas RE CMEP in Exhibit D is essentially unchanged from the Original Texas RE CMEP that the Commission has previously approved, New Texas RE should

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<sup>52</sup> See §1.0 of Attachment 1 to Exhibit D to the New Texas RE RDA. New Texas RE considered establishing a Board Compliance Committee to be the decisional authority, as a number of other Regional Entities have done. However, New Texas RE determined that because its Board will have only nine members (seven voting members), which is smaller than many other Regional Entities’ boards, the full Board of New Texas RE can generally serve as the decisional authority on compliance enforcement matters.

be found to satisfy the requirement of §215(c)(2)(B)(iii) of the FPA (made applicable to regional entities by §215(e)(4) and by 18 C.F.R. §39.8(c)(2)) that the regional entity “provide[s] fair and impartial procedures for enforcement of reliability standards through the imposition of penalties in accordance with subsection (e) [of §215] (including limitations on activities, functions, or operations, or other appropriate sanction).”

## **6. Exhibit E – Funding**

In Section 1 of Exhibit E to the New Texas RE RDA, “Reliability Readiness Evaluation and Improvement” has been deleted from the list of statutory activities, as this program has been terminated.

In Section 3, Collection of Funding, a revision has been made to require ERCOT (the billing and collection agent for NERC and Regional Entity assessments in the ERCOT Region) to transmit to NERC the amount of NERC’s quarterly invoice for the NERC and New Texas RE assessments, “no later than the later of (i) the first day of the calendar quarter and (ii) ten (10) business days after receiving [the] quarterly invoice.” This provision will require that ERCOT remit the assessment collections to NERC by the first day of the calendar quarter, unless NERC delivered the quarterly invoice to ERCOT less than ten days before the start of the quarter. The revised text also requires ERCOT to send a corresponding, confirming e-mail to the New Texas RE CEO (as well as to the NERC Chief Financial Officer) with information on the amount of assessment collections being remitted and any amounts that could not be collected. ERCOT has agreed to continue as the billing and collection agent for New Texas RE in the ERCOT Region for the current year (2010). Attachment 1 to Exhibit E is ERCOT’s Confirmation of its obligations as the billing and collection agent, with conforming revisions based on the change to Section 3 of Exhibit E just described.

Section 4, Application of Penalties, to the New Texas RE RDA has been revised to be consistent with the text of the *pro forma* delegation agreement. In addition, the following sentence has been added to Section 4: “Provided, however, that the allocation between NERC and [New] Texas RE of any penalty monies paid by ERCOT after the effective date of this Agreement in respect of violations of reliability standards occurring before the effective date of this Agreement, shall be agreed to by NERC and [New] Texas RE in a separate document.” It is possible that after New Texas RE becomes the Regional Entity, ERCOT will pay penalties for violations of reliability standards that occurred while ERCOT’s division, Original Texas RE, was the Regional Entity. While under the current delegation agreement between NERC and Original Texas RE, such penalty payments would go to NERC, it may be appropriate for New Texas RE to receive all or a portion of such penalties if the payment is made after New Texas RE becomes the Regional Entity.

In Section 5, Description of Non-Statutory Activities, text has been added to specify that New Texas RE will continue to perform the listed non-statutory activities at least through December 31, 2010. The non-statutory activities relate to monitoring compliance by ERCOT market participants with ERCOT Protocols and Operating Guides. While Original Texas RE, as a division of ERCOT, performs these non-statutory activities today, and New Texas RE (at the request of the PUCT) has agreed to perform these activities through the end of 2010, New Texas RE, ERCOT and the PUCT may re-evaluate whether New Texas RE should continue to perform these activities after 2010.

Section 2 of Exhibit E to the New Texas RE RDA provides that New Texas RE

shall allocate its dues, fees, and other charges for its activities pursuant to this delegation agreement among all load-serving entities on the basis for net-energy-for load, unless a different method or methods of allocating and calculating such

dues, fees, or charges has been submitted to and approved by NERC and the Commission, in accordance with Section 8(b) of this delegation agreement.”<sup>53</sup>

This provision is unchanged from the Original Texas RE RDA. This provision satisfies the requirement of §215(c)(2)(B)(ii) of the FPA (made applicable to regional entities by §215(e)(4) and by 18 C.F.R. §39.8(c)(2)) that the regional entity “allocate[s] equitably reasonable dues, fees, and other charges among end users” for its statutory activities.

#### **IV. PROPOSED 2010 BUSINESS PLAN AND BUDGET OF TEXAS RELIABILITY ENTITY**

##### **A. Overview**

New Texas RE plans to substantially recreate the staffing and operations of Original Texas RE. New Texas RE will hire the staff of Original Texas RE (all of whom, at this point, have expressed a willingness to move from ERCOT to New Texas RE), including the Chief Executive Officer (who will become the CEO of New Texas RE) and all directors and managers. ERCOT and New Texas RE will enter into an Asset and Assumption Agreement pursuant to which New Texas RE will receive from ERCOT certain tangible assets and intangible assets (such as bank accounts) used in the Original Texas RE operations and needed to seamlessly continue the regional entity operations, and will take assignment of and assume certain ongoing liabilities such as the current office lease, software contracts, and other contracts for goods and services used by Original Texas RE. The Asset and Assignment Agreement will also obligate New Texas RE to adopt and maintain employee benefit plans for the benefit of the employees transferring from ERCOT that, to the extent administratively and financially practicable, are

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<sup>53</sup> Similarly, §8(b) of the base delegation agreement provides that “[New] Texas RE and NERC agree that costs of carrying out Texas RE’s responsibilities under the Delegation Agreement will be equitably allocated among end users within the geographic boundaries described in **Exhibit A** and recovered through a formula based on net-energy-for load or through such other formula as is proposed by [New] Texas RE and approved by NERC and the Commission.”

substantially the same as the corresponding plans of ERCOT that were in effect for these employees.<sup>54</sup>

One notable exception to the re-creation of Original Texas RE's operations in New Texas RE relates to the general and administrative services, such as Information Technology ("IT"), Human Resources ("HR") and Finance and Accounting, that Original Texas RE obtains from ERCOT pursuant to a Memorandum of Understanding ("MOU").<sup>55</sup> New Texas RE will no longer obtain these services from ERCOT, but rather will hire its own employees (including an HR Manager, a Finance and Accounting Manager, and IT managers) to provide or oversee these functions, or will contract with third party providers for the services. Costs for replacing general and administrative services that Original Texas RE obtains from ERCOT accounts for a significant portion of New Texas RE's one-time start-up costs and its higher ongoing operating costs than those of Original Texas RE.

The addition of new employees in the general and administrative functions of Legal and Regulatory, Finance and Accounting, IT and HR accounts for New Texas RE's entire proposed 2010 staffing increase of 5.50 statutory FTEs over Original Texas RE's staffing.<sup>56</sup> New Texas RE does not plan to add any staff during 2010 in the direct statutory program functions over the staffing provided for in the approved Original Texas RE 2010 Business Plan and Budget.<sup>57</sup>

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<sup>54</sup> **Attachment 6** is the form of Assignment and Assumption Agreement.

<sup>55</sup> The current version of the MOU was included as an attachment to Original Texas RE's 2010 Business Plan and Budget filed with the Commission on August 22, 2009 in Docket No. RR09-9-000.

<sup>56</sup> New Texas RE also plans an increase of 0.5 FTE for non-statutory activities.

<sup>57</sup> The statutory direct programs are Reliability Standards; Compliance Monitoring and Enforcement and Organization Registration and Certification; Training, Education and Operator Certification; Reliability Assessment and Performance Analysis; and Situation Awareness and Infrastructure Security.

Services that New Texas RE will outsource to third party providers include employee benefits services, IT services and internal auditing. New Texas RE will use competitive processes to acquire these outsourced services. New Texas RE will have its own website and will no longer use ERCOT's servers and other IT infrastructure. For the purposes of the proposed Amended 2010 Business Plan and Budget, New Texas RE has developed estimates of the costs of the services to be outsourced using information from several sources, including input from subject-matter experts, quotes from and discussions with prospective vendors, and experience with outsourced services obtained by ERCOT/Original Texas RE

Additionally, because New Texas RE, unlike Old Texas RE, will not share a Board of Directors with ERCOT, New Texas RE will incur expenses for directors' fees for its four independent directors. For its proposed Amended 2010 Business Plan and Budget, New Texas RE has developed an estimate of the independent directors' fees based on a 2007 survey commissioned by the ERCOT Board and a 2008 survey conducted by the National Association of Corporate Directors.

New Texas RE anticipates moving to new offices in Austin, Texas, and incurring certain relocation costs, at the end of 2010. This move would be due to space constraints in the current offices and the expiration of the present lease on December 31, 2010.

NERC and New Texas RE are in agreement that the effective date of the New Texas RE RDA, and therefore of New Texas RE's delegation as the Regional Entity for the ERCOT Region, should be within 60 days following issuance of the Commission's Order approving the New Texas RE RDA and the proposed Amended 2010 Business Plan and Budget.<sup>58</sup> Upon the effective date, any remaining funds of Original Texas RE from cash reserves, penalty payments

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<sup>58</sup> As discussed in §VI of this petition, ideally the effective date would be July 1, 2010.

received from registered entities, and unspent statutory revenues, will be distributed to New Texas RE. Within 90 days following the effective date, NERC and New Texas RE, working in cooperation with Original Texas RE (ERCOT), will prepare a reconciliation of the approved Original 2010 Business Plan and Budget of Original Texas RE to the actual receipts and expenditures by Original Texas RE from January 1, 2010 to the effective date, and a demonstration that all unspent collections and reserves have been appropriately transferred to New Texas RE. This reconciliation will be filed with the Commission.

NERC and New Texas RE, in cooperation with Original Texas RE, will develop a confidential listing of all ongoing compliance monitoring and enforcement matters being handled by Original Texas RE as of the effective date, which will identify which of these matters will be assumed by New Texas RE and which (if any) will be assumed by NERC. The obligation to develop this listing and plan is memorialized in Section 4(a) of the New Texas RE RDA (*see* §III.C.1 of this petition).

**B. Detailed Discussion of New Texas RE's Amended 2010 Business Plan and Budget**

**1. Statutory Activities**

New Texas RE's proposed Amended 2010 Business Plan and Budget is based on the Original 2010 Business Plan and Budget of Original Texas RE that was approved by the Commission, with provision for changes in costs identified by New Texas RE due to the transfer to a separate, stand-alone corporation that is independent from ERCOT. **Attachment 4** to this petition is the New Texas RE Amended 2010 Business Plan and Budget. **Attachment 5** is a redline of the New Texas RE Amended 2010 Business Plan and Budget against the Original 2010 Business Plan and Budget of Original Texas RE. The Amended 2010 Business Plan and



Budget provides for an overall increase in statutory expenditures over the Original 2010 Business Plan and Budget of \$2,295,752, consisting of:

- (1) start-up costs for New Texas RDA of \$1,161,950, comprised of \$216,500 of operating expenses and \$1,092,000 of capital expenditures, offset by \$146,550 of depreciation expenses, and
- (2) increased recurring operating expenses of \$1,133,802, comprised of \$1,920,711 in increased operating expenses less elimination of payments to ERCOT for administrative services under the MOU of \$786,909.

In addition, due to the start-up costs and increased operating expenses, the Amended 2010 Business Plan and Budget includes an additional \$215,212 provision for Working Capital Reserve (based on a 75-day cash reserve target).<sup>59</sup> The resulting increased statutory 2010 funding requirement over the Original 2010 Business Plan and Budget is \$2,510,964. Original Texas RE does not have members separate from ERCOT, and so does not assess or collect membership fees, whereas New Texas RE's Bylaws provide for an annual membership fee of \$250. New Texas RE projects \$27,000 of membership fee revenue for 2010. As a result, the net increase in statutory assessments to LSEs provided for in the Amended 2010 Business Plan and Budget over the Original 2010 Business Plan and Budget is \$2,483,964.

All of the increased statutory costs in the Amended 2010 Business Plan and Budget are indirect expenses (*i.e.*, general and administrative). New Texas RE's Amended 2010 Business Plan and Budget does not provide for any increases in staffing or in direct expenses for any of the five statutory programs. However, because all indirect expenses are allocated to the statutory programs on the basis of proportional numbers of FTEs in each statutory program, the indirect

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<sup>59</sup> Table 5 in Section B of the Original 2010 Business Plan and Budget showed an assessment provision for Working Capital Reserve of \$(78,264), *i.e.*, a reduction to the required assessments. As shown in Table 5 of the Amended 2010 Business Plan and Budget, the assessment provision for Working Capital Reserve is now \$136,947. Therefore, the required additional assessment provision for Working Capital Reserve is  $\$78,364 + \$136,947 = \$215,212$  (rounded).

costs allocated to each direct statutory program, and therefore the total budgeted costs for each direct statutory program, are higher in the Amended 2010 Business Plan and Budget than in the Original 2010 Business Plan and Budget. In **Attachment 4**, the table at the start of the section discussing each of the direct statutory programs shows the increase in indirect expenses allocated to each direct statutory program in the Amended 2010 Business Plan and Budget, and the discussion under “Fixed Asset Additions” at the end of the section discussing each direct statutory program states the increase in capital additions assigned or allocated to each direct statutory program in the Amended 2010 Business Plan and Budget.

The New Texas RE start-up costs and increased recurring operating expenses are summarized at pages 9-11 of the Amended 2010 Business Plan and Budget and discussed in the relevant sections of the document. The principal components of the start-up costs are as follows:

1. New Texas RE must procure IT assets and establish an independent IT environment that operates without the assistance of ERCOT. The capital costs are budgeted at \$634,000.
2. New Texas RE will procure an accounting system to process its accounting data; this is budgeted at \$41,000.
3. New Texas RE will procure office furniture, employee work stations and conference room furniture; these capital additions are budgeted at \$317,000.
4. New Texas RE has budgeted \$200,000 for search fees for its four new independent directors.
5. New Texas RE has budgeted \$17,000 for the set-up and implementation of its HRIS, Payroll and Expense Reporting systems.
6. New Texas RE will establish a Compliance and Enforcement Data Management System, for which \$100,000 is budgeted.<sup>60</sup>

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<sup>60</sup> The Compliance and Enforcement Data Management System is a database tool designed to allow employees to efficiently and flexibly retrieve, view and analyze registered entity compliance and enforcement information while maintaining data integrity and completeness and reducing the amount of employee time spend manually managing data.

The principal components of the increased recurring operating expenses are as follows:

1. \$646,000 in salary and benefits expense for the new staff to be hired (the composition of the new staff to be hired is discussed below).
2. \$288,000 in Contracts & Consultants expense for recurring Board-related expenses and for administrative expenses in connection with new employees.
3. \$230,000 in Office Rent for meeting space needs, facility and maintenance expenses (services obtained by Original Texas RE from ERCOT under the MOU), and expenses for a potential move to new offices in late 2010.
4. \$4,000 in Office Costs due to additional office supplies and printing for new employees, membership activities, and costs relating to formation of the corporation.
5. \$597,000 in Professional Services expenses, including:
  - a. \$71,000 for increased employee benefits administration costs (provided to Original Texas RE by ERCOT under the MOU at lower cost).
  - b. \$51,000 for recruitment expenses.
  - c. \$181,000 for increased IT support services costs, to be obtained from third-party vendors (provided to Original Texas RE by ERCOT under the MOU at lower cost).
  - d. \$47,000 for increased accounting services costs from third-party providers (provided to Original Texas RE by ERCOT under the MOU at lower cost).
  - e. \$43,000 for increased, outsourced internal audit services costs (provided to Original Texas RE by ERCOT under the MOU at lower cost).
  - f. \$83,000 in increased costs for general liability, property and casualty, Directors & Officers, and Errors & Omissions insurance coverage (Original Texas RE is covered under ERCOT's insurance).
  - g. \$15,000 for increased security services costs (provided to Original Texas RE by ERCOT under the MOU at lower cost).
  - h. \$90,000 for increased outside legal expenses, due to an anticipated greater number and increased scope of registration and enforcement appeals in 2010 than was provided for in the Original 2010 Business Plan and Budget.<sup>61</sup>

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<sup>61</sup> These increased legal expenses are not due to the formation of New Texas RE or to the elimination of the MOU with ERCOT.

6. \$9,000 in Miscellaneous expenses due to treasury fees and ongoing cash management services (provided to Original Texas RE by ERCOT under the MOU at lower cost).
7. \$147,000 in increased Depreciation expense.

As noted earlier, these increased recurring operating expenses are offset by a projected \$787,000 reduction in operating expenses due to termination of payments to ERCOT for services (including office space) provided to Original Texas RE under the MOU.

New Texas RE plans to hire six additional FTE staff not provided for in the Original 2010 Business Plan and Budget, of which 5.5 FTE will be assigned to statutory activities and 0.5 FTE will be assigned to non-statutory activities. The six additional FTE will all be hired for general and administrative programs:

- An HR Manager to support and facilitate the HR and employee benefits functions.
- A Member Services Administrator to oversee administration of membership information and enrollment and to coordinate committee meetings and activities.
- A Finance and Accounting Manager to maintain the accounting system, financial and internal controls, budget development, payroll processing, accounts payable and receivable, increased accountability, fixed assets, financial statement preparation and auditor interface.
- An attorney to perform primarily corporate legal services such as contracting activities and HR-related matters.
- Two IT employees to provide the appropriate level of IT support and skills necessary to maintain New Texas RE's network infrastructure and data integrity, provide desk-side support to New Texas RE staff, facilitate specialized software and applications support, develop project scheduling and priorities lists, and create project requirements engineering documentation.

With the exception of membership services administration (since Original Texas RE does not have its own membership), the services to be provided by these employees are obtained by Original Texas RE from ERCOT under the MOU.

The Amended 2010 Business Plan and Budget provides for increased assessments to LSEs of \$2,483,964 over the assessments provided for in the Original Texas RE 2010 Business

Plan and Budget and as approved by the Commission. NERC and New Texas RE intend to bill LSEs for this incremental assessment amount (through ERCOT, the billing and collection agent) in equal amounts in the remaining quarterly assessments for 2010 following the Commission's Order. Therefore, assuming the Commission issues its Order approving the New Texas RE RDA and the New Texas RE Amended 2010 Business Plan and Budget by on or about May 20, 2010, as requested (*see* §VI of this petition), one-half of the incremental assessment amount would be billed in the assessment invoices for each of the third and fourth quarters of 2010.

## **2. Non-Statutory Activities**

New Texas RE will continue to provide compliance support to the PUCT, as currently provided by Original Texas RE, through December 31, 2010. The compliance support services include auditing, event analysis, complaint investigation and monthly metric monitoring to identify violations of ERCOT Protocols and reporting alleged violations to the PUCT. New Texas RE will also continue to monitor the stakeholder market rules creation and modification process and comment on proposed changes to Protocols that affect reliability. Finally, New Texas RE will continue to work with the PUCT to identify new risks to the ERCOT Region bulk power system and to develop strategies to address these risks from the regulatory perspective. Whether New Texas RE will continue to engage in these non-statutory activities after December 31, 2010 will be determined at a future date.

The New Texas RE Amended 2010 Business Plan and Budget provides for 0.5 FTE of the six additional hires to be allocated to general and administrative support for the non-statutory activities, resulting in an increase of \$69,854 in the non-statutory budget over the Original 2010 Business Plan and Budget. This increase is offset by a reduction of \$44,494 due primarily to cessation of payments to ERCOT under the MOU, for a net increase in non-statutory expenses of

\$25,360. In addition, there will be a related increase in the provision for Working Capital Reserve for non-statutory activities of \$4,748. The resulting increase in the non-statutory funding requirement for 2010 is \$30,108.

**V. PROCEEDINGS FOR THE APPROVAL OF THE  
DELEGATION AGREEMENT WITH TEXAS RELIABILITY ENTITY  
AND THE TEXAS RELIABILITY ENTITY 2010 BUSINESS PLAN AND BUDGET**

On June 15, 2009, the Board of Original Texas RE approved the initiation of activities towards formation of a new entity to be separate from ERCOT, including drafting proposed bylaws for the new entity. An initial draft of proposed Bylaws for New Texas RE was posted for stakeholder comment on July 13, 2009. Successive revised drafts of the proposed Bylaws were posted for comments from time to time during the ensuing six months. Comments on the posted drafts were received from stakeholders and taken into consideration in preparing subsequent drafts. The draft Bylaws and comments received thereon were also discussed at monthly meetings of the Original Texas RE Board and the Board advisory committee.

An initial draft of a delegation agreement between NERC and Texas RE (including the then-current drafts of the New Texas RE Bylaws and Standards Development Process) was posted for stakeholder comment on November 17, 2009. A “straw” membership meeting, with extensive prior notice, was held on November 24, 2009, for discussion of the then-current drafts of the Bylaws and delegation agreement, and to conduct an informal vote on the documents. At this meeting, various modifications to the Bylaws were agreed to, and a non-binding vote was conducted which approved the proposed versions of the Bylaws and the delegation agreement.

The New Texas RE RDA, Bylaws, and proposed Amended 2010 Business Plan and Budget, were posted for stakeholder comment on December 7, 2009. Stakeholders were notified by e-mail that the documents were posted for comment and that they would be voted on at the

December 14, 2009 meeting of the Original Texas RE Board. The Original Texas RE Board voted at the December 14 meeting to recommend approval of these documents.

Texas Reliability Entity, Inc., was incorporated as a Texas non-profit corporation on January 1, 2010 by the filing of its Certificate of Formation with the Texas Secretary of State.

Very slightly revised versions of the documents approved by the Original Texas RE Board on December 14, 2009, reflecting comments received from NERC after the documents were provided to NERC for review, were posted for comment on January 11, 2010, with a notice that the documents would be voted on by the New Texas RE Board of Directors (comprised of the Initial Directors as provided for in the Certificate of Formation) at a meeting on January 18, 2010. No written comments on the documents were received prior to the January 18, 2010 Board meeting. At the January 18, 2010 meeting, the New Texas RE Board approved the proposed Bylaws, delegation agreement (including the Standards Development Process), and Amended 2010 Business Plan and Budget, for submission to NERC. **Attachment 7** contains the New Texas RE Board's resolutions approving the New Texas RE RDA and the Amended 2010 Business Plan and Budget.

Subsequent to the January 18, 2010 New Texas RE Board meeting, several minor, non-substantive revisions were made to the New Texas RE Bylaws, the New Texas RE RDA and the New Texas RE Amended 2010 Business Plan and Budget, based on further input from NERC. On February 2, 2010, an announcement was sent to all registered entities on the Original Texas RE compliance registry and to all of Original Texas RE's e-mail distribution lists, stating that any additional comments on the proposed New Texas RE delegation agreement (including the Bylaws and Standards Development Process) and the Amended 2010 Business Plan and Budget must be submitted by noon on February 12, 2010. The announcement included links to the

documents. No written comments on these documents were received. On February 5, 2010, the membership<sup>62</sup> of New Texas RE voted to approve the Bylaws that had been adopted by the New Texas RE Board.

The proposed New Texas RE RDA and Exhibits, and the proposed New Texas RE Amended 2010 Business Plan and Budget, were considered by the NERC Board of Trustees at its February 16, 2010 meeting. The New Texas RE RDA and the Amended 2010 Business Plan and Budget were included on the Board's publicly-posted agenda in advance of this meeting. The Amended 2010 Business Plan and Budget was also considered by the Finance and Audit Committee of the NERC Board at the Committee's February 11, 2010 meeting, and recommended for approval to the Board. At its February 16 meeting, the NERC Board approved entry into the New Texas RE RDA, the termination of the Original Texas RE RDA effective on the effective date of the New Texas RDA, and the New Texas RE Amended 2010 Business Plan and Budget, and directed that the New Texas RE RDA and Amended 2010 Business Plan and Budget be submitted to the Commission for approval.

## **VI. REQUEST FOR EXPEDITIOUS CONSIDERATION AND APPROVAL**

NERC and New Texas RE request that the Commission issue an order approving the New Texas RE RDA, the termination of the Original Texas RE RDA, and the New Texas RE Amended 2010 Business Plan and Budget, by on or about May 20, 2010. NERC and New Texas RE are committed to placing the New Texas RE RDA into effect within 60 days following the

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<sup>62</sup> On January 13, 2010, New Texas RE sent notice to all potential corporate members (all registered entities' Primary Compliance Contacts, copying the Original Texas RE email distribution Listserv), that the new Texas Reliability Entity, Inc. was formed and was seeking new members. This notice provided information about qualifications of membership, described how to register as a member, and informed potential members of the intended membership vote on the Bylaws on or about February 3, 2010. New Texas RE sent a reminder notice about the membership vote on the Bylaws on January 22, 2010.



issuance of the Commission's Order, and ideally would do so on the first day of a calendar month, as commencement of New Texas RE RDA's regional entity activities on the first day of a month will simplify the financial accounting, recordkeeping and reporting of the activities of Original Texas RE and New Texas RE as the Regional Entity in 2010. Issuance of an Order by on or about May 20, 2010, will enable NERC and New Texas RE to place the New Texas RE RDA into effect on July 1, 2010.

In addition, Original Texas RE has scheduled a compliance audit of the ERCOT ISO for 2010, with the on-site portion of the audit currently scheduled for May 18-21, 2010. With Original Texas RE as the regional entity for the ERCOT Region, it would be necessary for NERC to conduct this compliance audit. However, if New Texas RE RDA can commence its activities as the regional entity by July 1, the compliance audit of ERCOT ISO would be postponed to the second half of the year, and led by New Texas RDA. More generally, prompt installation of New Texas RE as the regional entity for the ERCOT Region would be consistent with the importance with which the Commission viewed this initiative in the Original Texas RE Audit Report Order.

## **VII. CONCLUSION**

For the reasons set forth in this petition, the North American Electric Reliability Corporation respectfully requests issuance of an Order, by on or about May 20, 2010: (1) approving the proposed Amended and Restated Delegation Agreement between NERC and Texas Reliability Entity, Inc., **Attachment 1** to this petition, and approving the delegation of authority to Texas Reliability Entity, Inc., as the regional entity for the ERCOT Region, (2) approving the termination of the Amended and Restated Delegation Agreement between NERC and Texas Regional Entity, a division of ERCOT, and (3) approving the proposed Amended

2010 Business Plan and Budget of Texas Reliability Entity, Inc., **Attachment 4** to this petition, including the additional 2010 assessments of \$2,483,964 to LSEs in the ERCOT Region provided for in the Amended 2010 Business Plan and Budget.

Respectfully submitted,

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**ATTACHMENT 1**

**PROPOSED AMENDED AND RESTATED DELEGATION AGREEMENT**

**BETWEEN NERC AND**

**TEXAS RELIABILITY ENTITY, INC.**

**CLEAN VERSION**

**AMENDED AND RESTATED DELEGATION AGREEMENT BETWEEN  
NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION  
AND TEXAS RELIABILITY ENTITY, INC.**

AMENDED AND RESTATED DELEGATION AGREEMENT (“Agreement”) made effective \_\_\_\_\_, 2010, between the North American Electric Reliability Corporation (“NERC”), an organization certified by the Federal Energy Regulatory Commission (“Commission”) pursuant to Section 215(c) of the Federal Power Act to establish and enforce Reliability Standards for the bulk power system, and the Texas Reliability Entity, Inc. (“Texas RE”), an organization established to develop and enforce Reliability Standards within the geographic boundaries identified on **Exhibit A** to this Agreement, and for other purposes. NERC and Texas RE may be individually referred to herein as “Party” or collectively as “Parties.”

**WITNESSETH**

**WHEREAS**, Subtitle A of the Electricity Modernization Act of 2005 added Section 215 to the Federal Power Act (16 U.S.C. § 824n) (hereafter “the Act”) and, among other things, provides for the establishment of an electric reliability organization (“ERO”) to develop and enforce Reliability Standards applicable to all owners, operators, and users of the bulk power system;

**WHEREAS**, the Commission has adopted regulations for the implementation of the Act set forth at Chapter I, Title 18, Code of Federal Regulations, Part 39, as adopted by Commission Order No. 672 in Docket No. RM05-30-000 on February 3, 2006; (114 FERC ¶ 61, 104; hereafter “Order 672”);

**WHEREAS**, the Commission has certified NERC as the ERO that will, in accordance with the Act, establish and enforce Reliability Standards for the bulk power system, subject to certain delegation provisions described below;

**WHEREAS**, the Act recognizes the international interdependency of electric reliability within North America and envisions the ERO and such applicable Regional Entities as international organizations;

**WHEREAS**, the Act and Section 39.8 of the Commission’s regulations provide for the delegation by the ERO of authority to propose and enforce Reliability Standards to regional entities such as Texas RE provided that:

(A) The Regional Entity is governed by —

- (i) an independent board;
- (ii) a balanced stakeholder board; or
- (iii) a combination independent and balanced stakeholder board.

(B) The Regional Entity otherwise satisfies the provisions of Section 215(c)(1) and (2) of the Act; and

(C) The agreement promotes effective and efficient administration of bulk power system reliability;

**WHEREAS**, certain Regional Entities are organized on an Interconnection-wide basis and are therefore entitled to the presumption set forth in the Act that: “[t]he ERO and the Commission shall rebuttably presume that a proposal for delegation to a Regional Entity organized on an Interconnection-wide basis promotes effective and efficient administration of bulk power system reliability and should be approved”;

**WHEREAS**, the Act further provides that the ERO shall rebuttably presume that a proposal from a Regional Entity organized on an Interconnection-wide basis for a Reliability Standard or modification to a Reliability Standard to be applicable on an Interconnection-wide basis is just, reasonable, and not unduly discriminatory or preferential, and in the public interest;

**WHEREAS**, Texas RE is organized on an Interconnection-wide basis and therefore is entitled to the rebuttable presumptions accorded such an entity;

**WHEREAS**, NERC will work through Texas RE to carry out certain of its activities in furtherance of its responsibilities as the electric reliability organization under the Act; and

**WHEREAS**, NERC has concluded that Texas RE meets all requirements of the Act, the Commission's regulations, and the NERC Rules of Procedure as approved by the Commission ("NERC Rules") necessary to qualify for delegation;

**NOW, THEREFORE**, in consideration of the mutual covenants and agreements herein contained, NERC and Texas RE, agree as follows:

**1. Definitions.** The capitalized terms used in this Agreement shall be defined as set forth in the Act, the Commission's regulations, or the NERC Rules or, if not so defined, shall be defined as follows:

(a) Breach means (i) the failure of a Party to perform or observe any material term, condition or covenant of the Agreement or (ii) a representation in Section 2 of the Agreement shall have become materially untrue.

(b) Cross-Border Regional Entity means a Regional Entity that encompasses a part of the United States and a part of Canada or Mexico.

(c) Delegated Authority means the authority delegated by NERC to Texas RE to propose and enforce Reliability Standards pursuant to the Act.

(d) Texas RE Rules means the bylaws, a rule of procedure or other organizational rule or protocol of Texas RE.

(e) Reliability Standard means a requirement approved by the Commission under Section 215 of the Federal Power Act to provide for reliable operation of the bulk power system. The term includes requirements for the operation of existing bulk power system facilities, including cyber security protection, and the design of planned additions or modifications to such facilities to the extent necessary for reliable operation of the bulk power system; but the term does not include any requirement to enlarge such facilities or to construct new transmission capacity or generation capacity.

## 2. Representations.

(a) For purposes of its Delegated Authority, Texas RE hereby represents and warrants to NERC that:

(i) Texas RE is and shall remain during the term of this Agreement validly existing and in good standing pursuant all applicable laws relevant to this Agreement and that no applicable law, contract or other legal obligation prevents it from executing this Agreement and fulfilling its obligations hereunder. Texas RE is governed in accordance with its bylaws by a combination independent and balanced stakeholder board. Pursuant to these bylaws, no two industry sectors can control any Texas RE decision and no single industry sector can veto any Texas RE decision. The bylaws are attached hereto as **Exhibit B**, and as so attached are in full force and effect. No other such corporate governance documents are binding upon Texas RE.

(ii) As set forth in **Exhibit C** hereto, Texas RE has developed a standards development procedure, which provides the process that Texas RE may use to develop Regional Reliability Standards and Regional Variances that are proposed to NERC for adoption.

(iii) As set forth in **Exhibit D** hereto, Texas RE has developed a regional compliance enforcement program, which provides for the enforcement of Reliability Standards within its geographic boundaries.

(b) NERC hereby represents and warrants to Texas RE that:

(i) It is and shall remain during the term of this Agreement validly existing and in good standing pursuant all applicable laws relevant to this Agreement and that no applicable law, contract or other legal obligation prevents it from executing this Agreement and fulfilling its obligations hereunder; and

(ii) It has been certified as the ERO by the Commission pursuant to the Act.

## 3. Covenants.

(a) During the term of this Agreement, Texas RE shall maintain and preserve its qualifications for delegation pursuant to the Act and shall not amend the Texas RE Rules without NERC's approval, which shall not be unreasonably withheld or delayed and which shall, in the

case of a Regional Entity organized on an Interconnection-wide basis, be governed by the presumptions provided for in Section 215(d)(2) and (e)(4)(C) of the Act, and be subject to any required Commission approval.

(b) During the term of this agreement, NERC shall maintain its qualification and status as the ERO pursuant to the Act and, subject to the provisions of Sections 16 and 17 of this Agreement, NERC shall not adopt amendments to the NERC Rules that conflict with the rights, obligations or programs of Texas RE under this Agreement without first obtaining the consent of Texas RE, which consent shall not be unreasonably withheld or delayed.

(c) During the term of this agreement, NERC and Texas RE shall adhere to and require that all participants in their respective activities under this Agreement follow and comply with the NERC Antitrust Compliance Guidelines.

#### **4. Delegation of Authority.**

(a) Based upon the representations, warranties and covenants of Texas RE in Sections 2 and 3 above, the corporate governance documents set forth in **Exhibit B**, the standards development process set forth in **Exhibit C**, and the regional compliance enforcement program set forth in **Exhibit D**, NERC hereby delegates authority, pursuant to Section 215(e)(4) of the Act, to Texas RE for the purpose of proposing Reliability Standards to NERC, as set forth in Section 5 of this Agreement, and enforcing Reliability Standards, as set forth in Section 6 of this Agreement, within the geographic boundaries set forth on **Exhibit A**. Without limiting the scope of the foregoing delegation, as of the effective date of this Agreement, Texas RE is delegated authority and responsibility for continuation of all compliance monitoring and enforcement activities formerly delegated to and conducted by Texas Regional Entity, a division of Electric Reliability Council of Texas, Inc. ("ERCOT") prior to the effective date, including without limitation: all compliance audits, spot checks, self-certifications, self-reports, compliance violation investigations, investigations of complaints, investigation and processing of possible violations and alleged violations and imposition of penalties or sanctions for violations, review, acceptance or rejection, and oversight of completion of settlement agreements with and mitigation plans of registered entities, and receipt, review, acceptance or rejection, approval or disapproval, and ongoing monitoring, of Technical Feasibility Exceptions requested by registered entities to certain Requirements of Critical Infrastructure Protection Standards. No



further redelegation of authority or responsibility, in total or in part, under this Agreement is allowed without NERC's express consent.

(b) For Cross-Border Regional Entities, the authority delegated by this Agreement shall extend only to the portion of the region identified on **Exhibit A** that is within the United States. Any delegation of authority by governmental authorities in Canada or Mexico shall be governed by a separate agreement and is outside the scope of this Agreement; provided, however, that both Texas RE and NERC shall endeavor to ensure that this Agreement and such separate agreements are compatible.

(c) As a condition to this delegation of authority and subject to the provisions of section 16 of this Agreement, Texas RE shall comply with the applicable provisions of NERC's Certificate of Incorporation, Bylaws, Rules of Procedure, and Reliability Standards, as from time to time adopted, approved, or amended.

## **5. Reliability Standards.**

(a) In connection with its Delegated Authority, Texas RE shall be entitled to:

- (i) propose Reliability Standards, Regional Variances, or modifications thereof to NERC, which shall be considered by NERC through an open and inclusive process for proposing and adopting Reliability Standards that affords Texas RE reasonable notice and opportunity to be heard; and
- (ii) develop Regional Reliability Standards and Regional Variances through Texas RE's process as set forth in **Exhibit C**. Proposals approved through Texas RE's process shall be reviewed by the NERC Board of Trustees after NERC provides notice and an opportunity for interested persons to comment. In the case of a proposal from a Regional Entity organized on an Interconnection-wide basis, comments shall be limited to the factors identified in NERC Rule 313, section 3.1 as it may be amended from time to time. The NERC board of trustees shall promptly thereafter consider such proposed Regional Reliability Standard or Regional Variance, applying the rebuttable presumption described in subsection 5(b) if the proposed Regional Reliability Standard or Regional Variance is from a Regional Entity organized on an Interconnection-wide basis, and either approve the proposed standard and submit it to the Commission for approval, or disapprove it in writing setting forth its reasons.

Texas RE may appeal any disapproval of a proposed Regional Reliability Standard or Regional Variance to the Commission.

(b) Pursuant to Section 215(d)(3) of the Act, NERC shall rebuttably presume that a proposal from a Regional Entity organized on an Interconnection-wide basis for a Regional Reliability Standard or Regional Variance or modification thereof to be applicable on an Interconnection-wide basis is just, reasonable, and not unduly discriminatory or preferential, and in the public interest. Any person challenging such proposal from the Texas RE shall have the burden of proof. NERC shall not find that this presumption has been rebutted except based upon substantial evidence that has been disclosed to, and been subject to comment by, the Texas RE during NERC's review of the proposal.

## **6. Enforcement.**

(a) In connection with its delegated authority pursuant to this Agreement, Texas RE shall enforce Reliability Standards (including Regional Reliability Standards and Regional Variances) within the geographic boundaries set forth in **Exhibit A** through the compliance enforcement program set forth in **Exhibit D**. NERC and Texas RE agree that this program meets all applicable requirements of the Act, Order 672 and the Commission's regulations, including, *inter alia*, the requirement for an audit program pursuant to Section 39.7(a) of the Commission's regulations, the assessment of penalties pursuant to Section 39.7(c) through 39.7(g) of the Commission's regulations and the requirements for due process. Texas RE may not change its compliance enforcement program set forth in **Exhibit D** absent NERC's approval, which shall not be unreasonably withheld or delayed. Subject to the rights and limitations of Sections 16 and 17 of this Agreement, Texas RE agrees to comply with the NERC Rules in implementing this program.

(b) Texas RE shall report promptly to NERC any self-reported violation or investigation of a violation or an alleged violation of a Reliability Standard and its eventual disposition. Such report shall include the owner's, operator's, or user's name, which Reliability Standard or Reliability Standards were violated or allegedly violated, when the violation or alleged violation occurred, other pertinent facts about the violation including circumstances surrounding the violation with any known risk to the bulk power system, when the violation was or will be mitigated, the name of a person knowledgeable about the violation or alleged violation

to serve as a point of contact with the Commission, and any other information required by NERC compliance program procedures. NERC shall promptly forward such report to the Commission. NERC and Texas RE shall cooperate in filing such periodic summary reports as the Commission shall from time to time direct on violations of Reliability Standards and summary analyses of such violations.

(c) Each violation or alleged violation shall be treated as nonpublic until the matter is filed with the Commission as a notice of penalty or resolved by an admission that the owner, operator, or user of the bulk power system violated a Reliability Standard or by a settlement or other negotiated disposition. However, any hearing conducted by the Public Utility Commission of Texas (PUCT) concerning an alleged violation in the ERCOT power region shall be conducted as a public hearing and any evidence or other submissions concerning the hearing, except for information that is confidential or privileged under law, shall be publicly available. Following the hearing, the PUCT shall issue its recommendation on the appropriate resolution of the allegations in a written document that will be publicly available. Notwithstanding the foregoing, the disposition of each violation or alleged violation that relates to a Cybersecurity Incident or that would jeopardize the security of the bulk power system if publicly disclosed shall be nonpublic unless the Commission directs otherwise.

(d) All appeals of penalties imposed by Texas RE shall be filed with NERC, in accordance with the NERC Rules.

(e) Texas RE shall maintain the capability to conduct investigations of potential violations of Reliability Standards and to conduct such investigations in a confidential manner.

(f) Texas RE shall maintain a program of proactive enforcement audits including procedures for spot-checks of self-reported compliance and periodic audits of all responsible entities as defined in **Exhibit D**.

(g) As part of its compliance enforcement program, Texas RE shall maintain a conflict of interest policy that assures the integrity of such program and the independence of the compliance program staff from those subject to enforcement actions.

(h) As often as NERC deems necessary, but no less than every three years, NERC shall review Texas RE's compliance enforcement program to ensure that: (i) the program meets all applicable legal requirements; (ii) actual practices reflect the requirements; and (iii) the program administered pursuant to the Delegated Authority promotes consistent interpretations

across North America of Reliability Standards and comparable levels of sanctions and penalties to violations of Reliability Standards constituting comparable levels of threat to reliability of the bulk power system.

(i) Texas RE shall modify its compliance enforcement program as needed to reflect additions to, deletions from, or modifications of Reliability Standards and, subject to the rights and limitations of Sections 16 and 17 of this Agreement, shall modify its compliance enforcement program as needed: (i) to reflect amendments to the NERC Rules; (ii) to comply with NERC directives resulting from the review of compliance enforcement programs as provided in Section 6(h) of this Agreement; or (iii) to resolve a conflict with a function, rule, order, tariff, rate schedule, or agreement accepted, approved, or ordered by the Commission.

(j) NERC shall conduct a review with the Regional Entities that provides for the exchange of information on practices, experiences, and lessons learned in the implementation of compliance enforcement programs.

**7. Delegation-Related Services.** NERC will engage Texas RE on its behalf to carry out certain of its activities that are in furtherance of its responsibilities as the ERO under the Act or in support of delegated functions, as specified in the NERC Rules and listed on **Exhibit E**.

**8. Funding.** Texas RE and NERC shall ensure that the delegated functions and related activities listed on **Exhibit E** have reasonable and adequate funding and resources by undertaking the following:

(a) NERC shall fund Texas RE activities necessary for Texas RE to carry out its Delegated Authority under this Agreement, including the functions listed on **Exhibit E**, and shall not impose any obligation or requirement regarding Delegated Authority upon Texas RE without providing appropriate funding to carry out such mandates;

(b) Texas RE and NERC agree that costs of carrying out Texas RE's responsibilities under the Delegation Agreement will be equitably allocated among end users within the geographic boundaries described in **Exhibit A** and recovered through a formula based on net-energy-for load or through such other formula as is proposed by Texas RE and approved by NERC and the Commission. If Texas RE proposes to use a formula other than net energy for load beginning in the following year, Texas RE shall submit the proposed formula to NERC in

sufficient time that NERC may review and approve the proposed formula and file it with the Commission for approval by May 15, and the proposed formula shall be effective for the following year if approved by the Commission on or before the date the Commission approves the annual business plan and budget submitted by NERC and Texas RE to the Commission pursuant to 18 C.F.R. §39.4, for such year.

(c) NERC will ensure that the costs for its responsibilities are first allocated fairly among the interconnections and regions according to the applicability of this work to those interconnections and regions, and then equitably among the end users of the applicable interconnections and regions as appropriate. Allocation on a net energy for load basis will be presumed to satisfy this equitability requirement.

(d) NERC shall provide Texas RE with the form for budget submittal no later than April 30 of the prior year.

(e) Texas RE shall submit its annual budget for carrying out its Delegated Authority functions and related activities listed on **Exhibit E**, as well as all other Texas RE activities and funding to NERC no later than June 1 of the prior fiscal year such that NERC may submit its budget to the Commission 130 days in advance of the beginning of each fiscal year. The Texas RE budget submission shall include supporting materials, including Texas RE's complete business plan and organization chart, explaining the proposed collection of all dues, fees and charges, and the proposed expenditure of funds collected in sufficient detail to justify the requested funding collection and budget expenditures, as well as the budget, supporting materials, and proposed allocation and method of collection for the costs of any approved regional advisory body. NERC shall develop, in consultation with the Regional Entities, a reasonable and consistent system of accounts, with a level of detail and record keeping comparable to the Commission's Uniform System of Accounts and sufficient to allow the Commission to compare each Commission-approved NERC fiscal year budget with the actual results at the NERC and Regional Entity level. Texas RE shall follow NERC's prescribed system of accounts. NERC shall make an informational filing with the Commission describing any such waiver it permits and providing an explanation supporting the permitted departure.

(f) Texas RE's funding system shall include reasonable reserve funding for unforeseen and extraordinary expenses and other contingencies, consistent with generally accepted accounting principles.

(g) NERC shall review and approve Texas RE's budget for meeting its responsibilities under the Delegation Agreement.

(h) Texas RE shall submit unaudited quarterly interim financial statements in form provided by NERC no later than 20 days after the end of the fiscal quarter (March 31, June 30, September 30, and December 31).

(i) Texas RE shall submit audited financial statements annually including supporting materials in a form provided by NERC no later than 150 days after the end of the fiscal year.

(j) NERC shall have the right to review from time to time, in reasonable intervals but no less than every three years, the financial records of Texas RE in order to ensure that the documentation fairly represents in all material respects appropriate funding under this Agreement.

(k) **Exhibit E** to this Agreement sets forth the mechanism through which Texas RE shall offset penalty monies it receives (other than penalty monies received from an operational function or division or affiliated entity) against its next year's annual budget for carrying out functions under this Agreement, and the mechanism by which Texas RE shall transmit to NERC any penalty monies received from an operational function or division or affiliated entity of Texas RE.

**9. Assignment.** This Agreement may be assigned by either Party only with the prior written consent of the other, which consent shall be granted or withheld in such non-assigning Party's sole discretion, subject to approval by the Commission. Any assignment under this Agreement shall not relieve a Party of its obligations, nor shall a Party's obligations be enlarged, in whole or in part, by reason thereof. Texas RE may not delegate in whole or in part its Delegated Authority to any other entity; provided, however, that nothing in this provision shall prohibit Texas RE from contracting with other entities to assist it in carrying out its Delegated Authority, provided Texas RE retains control and responsibility for such Delegated Authority.

**10. Default and Cure.** Upon a Breach, the non-breaching Party shall give written notice of such Breach to the breaching Party (the "Default Notice"). Subject to a suspension of the following deadlines as specified below, the breaching Party shall have thirty (30) calendar days from receipt of the Default Notice within which to cure such Breach; provided however, that if

such Breach is not capable of cure within thirty (30) calendar days, the breaching Party shall commence such cure within thirty (30) calendar days after notice and continuously and diligently complete such cure within ninety (90) calendar days from receipt of the Default Notice; and, if cured within such time, the Breach specified in such notice shall cease to exist. Subject to the limitation specified in the following sentence, if a Breach is not cured as provided in this article, or if a Breach is not capable of being cured within the period provided for herein, the nonbreaching Party shall have the right to declare a default and terminate this Agreement by written notice at any time until cure occurs, and be relieved of any further obligation hereunder. The deadlines for cure and the right to declare a default and terminate this Agreement shall be suspended during the pendency of any efforts or proceedings in accordance with Section 17 of this Agreement to resolve a dispute as to whether a Breach has occurred. The provisions of this article will survive termination of this Agreement.

**11. Term and Termination.**

(a) This Agreement shall become effective on \_\_\_\_\_, 2010, pursuant to the \_\_\_\_\_, 2010 order of the Federal Energy Regulatory Commission (\_\_\_ FERC \_\_\_).

(b) The initial term of the Agreement shall be from the effective date until May 2, 2011. So long as Texas RE continues to meet all applicable statutory and regulatory requirements necessary to maintain its eligibility for delegation, this Agreement may be renewed for another five (5) year term. If this Agreement is not renewed or becomes subject to termination for any reason, the Parties shall work to ensure a transition of Texas RE's Delegated Authority to NERC or to another eligible entity. The termination of this Agreement shall not take effect until such transition has been effected, unless the transition period exceeds one year, at which time Texas RE may unilaterally terminate.

(c) If any provision of this Agreement, or the application thereof to any person, entity or circumstance, is held by a court or regulatory authority of competent jurisdiction to be invalid, void, or unenforceable, or if a modification or condition to this Agreement is imposed by a regulatory authority exercising jurisdiction over this Agreement, the Parties shall endeavor in good faith to negotiate such amendment or amendments to this Agreement as will restore the relative benefits and obligations of the signatories under this Agreement immediately prior to such holding, modification or condition. If either Party finds such holding, modification or

condition unacceptable and the Parties are unable to renegotiate a mutually acceptable resolution, either Party may unilaterally terminate this Agreement. Such termination shall be effective one year following written notice by either Party to the other Party and to the Commission, or at such other time as may be mutually agreed by Texas RE and NERC.

(d) Notwithstanding any termination of this Agreement, provisions contained in Limitation of Liability (Section 12), No Third Party Beneficiaries (Section 13) and Confidentiality (Section 14) shall survive this Agreement in accordance with their terms until sixty (60) days following the expiration of any applicable statute of limitations.

**12. Limitation of Liability.** Texas RE and NERC agree not to sue each other or their directors, officers, employees, and persons serving on their committees and subgroups based on any act or omission of any of the foregoing in the performance of duties pursuant to this Agreement or in conducting activities under the authority of Section 215 of the Act, other than seeking a review of such action or inaction by the Commission. NERC and Texas RE shall not be liable to one another for any damages whatsoever, including without limitation, direct, indirect, incidental, special, multiple, consequential (including attorneys' fees and litigation costs), exemplary, or punitive damages arising out of or resulting from any act or omission associated with the performance of the Texas RE's or NERC's responsibilities under this Agreement or in conducting activities under the authority of Section 215 of the Act, except to the extent that the Texas RE or NERC is found liable for gross negligence or intentional misconduct, in which case Texas RE or NERC shall not be liable for any indirect, incidental, special, multiple, consequential (including without limitation attorneys' fees and litigation costs), exemplary, or punitive damages.

**13. No Third Party Beneficiaries.** Nothing in this Agreement shall be construed to create any duty to, any standard of care with reference to, or any liability to any third party.

**14. Confidentiality.** During the course of the Parties' performance under this Agreement, a Party may receive Confidential Information, as defined in Section 1500 of NERC's Rules of Procedure. Except as set forth herein, the Parties agree to keep in confidence and not to copy, disclose, or distribute any Confidential Information or any part thereof, without the prior written



permission of the issuing Party, unless disclosure is required by subpoena, law, or other directive of a court, administrative agency, or arbitration panel, in which event the recipient hereby agrees to provide the Party that provided the Confidential Information with prompt notice of such request or requirement in order to enable such issuing Party to (a) seek an appropriate protective order or other remedy, (b) consult with the recipient with respect to taking steps to resist or narrow the scope of such request or legal process, or (c) waive compliance, in whole or in part, with the terms of this Section. In the event a protective order or other remedy is not obtained or the issuing Party waives compliance with the provisions, the recipient agrees to furnish only that portion of the Confidential Information which the recipient's counsel advises is legally required and to exercise best efforts to obtain assurance that confidential treatment will be accorded to such Confidential Information. In addition, each Party shall ensure that its officers, trustees directors, employees, subcontractors and subcontractors' employees, and agents to whom Confidential Information is exposed are under obligations of confidentiality that are at least as restrictive as those contained herein. This confidentiality provision does not prohibit reporting and disclosure as directed by NERC, as set forth in Section 6 of this Agreement.

**15. Amendment.** Neither this Agreement nor any of the terms hereof, may be amended unless such amendment is made in writing, signed by the Parties, and filed with and approved by the Commission.

**16. Amendments to the NERC Rules.** NERC shall not adopt amendments to the NERC Rules that conflict with the rights, obligations, or programs of Texas RE under this Agreement without first obtaining the consent of Texas RE, which consent shall not be unreasonably withheld or delayed. To the extent Texas RE does not consent, NERC shall have the right to invoke the dispute resolution provisions of Section 17 and, if such effort fails to resolve the dispute, to petition the Commission to adopt the amendment to the NERC Rules. To the extent that the Commission issues an order amending or materially affecting the rights or obligations of Texas RE under this Agreement, Texas RE shall have the option, exercisable no later than 60 days after issuance of such order, to terminate this Agreement. Such termination shall be effective one year following written notice by Texas RE to NERC and the Commission, or at such other time as may be mutually agreed by Texas RE and NERC.

**17. Dispute Resolution.** In the event a dispute arises under this Agreement between NERC and Texas RE, representatives of the Parties with authority to settle the dispute shall meet and confer in good faith in an effort to resolve the dispute in a timely manner. In the event the designated representatives are unable to resolve the dispute within thirty (30) days or such other period as the Parties may agree upon, each Party shall have all rights to pursue all remedies, except as expressly limited by the terms of this Agreement. Neither Party shall have the right to pursue other remedies until the Dispute Resolution procedures of this Section 17 have been exhausted. This Section 17 shall not apply to enforcement actions against individual entities.

**18. Notice.** Whether expressly so stated or not, all notices, demands, requests, and other communications required or permitted by or provided for in this Agreement shall be given in writing to a Party at the address set forth below, or at such other address as a Party shall designate for itself in writing in accordance with this Section, and shall be delivered by hand or reputable overnight courier:

If to NERC:  
North American Electric  
Reliability Corporation  
116-390 Village Blvd.  
Princeton, NJ 08540-5721  
Attn: \_\_\_\_\_  
Facsimile: (609) 452-9550

If to Texas RE:  
Texas Reliability Entity, Inc.  
2700 Via Fortuna, Suite #225  
Austin, Texas 78746  
Attn: Larry Grimm,  
Chief Executive Officer  
Facsimile: (512) 225-7165

**19. Governing Law.** When not in conflict with or preempted by federal law, this Agreement will be governed by and construed in accordance with the laws of New Jersey without giving effect to the conflict of law principles thereof. The Parties recognize and agree not to contest the exclusive or primary jurisdiction of the Commission to interpret and apply this Agreement; provided however that if the Commission declines to exercise or is precluded from exercising jurisdiction of any action arising out of or concerning this Agreement, such action shall be brought in any state or federal court of competent jurisdiction in New Jersey. All Parties hereby consent to the jurisdiction of any state or federal court of competent jurisdiction in New Jersey

for the purpose of hearing and determining any action not heard and determined by the Commission.

**20. Headings.** The headings and captions in this Agreement are for convenience of reference only and shall not define, limit, or otherwise affect any of the terms or provisions hereof.

**21. Savings Clause.** Nothing in this Agreement shall be construed to preempt or limit any authority that Texas RE may have to adopt reliability requirements or take other actions to ensure reliability of the bulk power system within the geographic boundaries described in **Exhibit A** that are outside the authority delegated from NERC, as long as such reliability requirements and actions are not inconsistent with Reliability Standards applicable to the region described in **Exhibit A** and do not result in a lessening of reliability outside the region described in **Exhibit A**.

**22. Entire Agreement.** This Agreement constitutes the entire agreement, and supersedes all prior agreements and understandings, both written and oral, among the parties with respect to the subject matter of this Agreement.

**24. Execution of Counterparts.** This Agreement may be executed in counterparts and each shall have the same force and effect as the original.

**NOW THEREFORE**, the parties have caused this Agreement to be executed by its duly authorized representatives, effective as of the date first above written.

NORTH AMERICAN  
ELECTRIC RELIABILITY CORPORATION

TEXAS RELIABILITY ENTITY, INC

By: \_\_\_\_\_

By: \_\_\_\_\_

Name: \_\_\_\_\_

Name: Larry Grimm

Title: \_\_\_\_\_

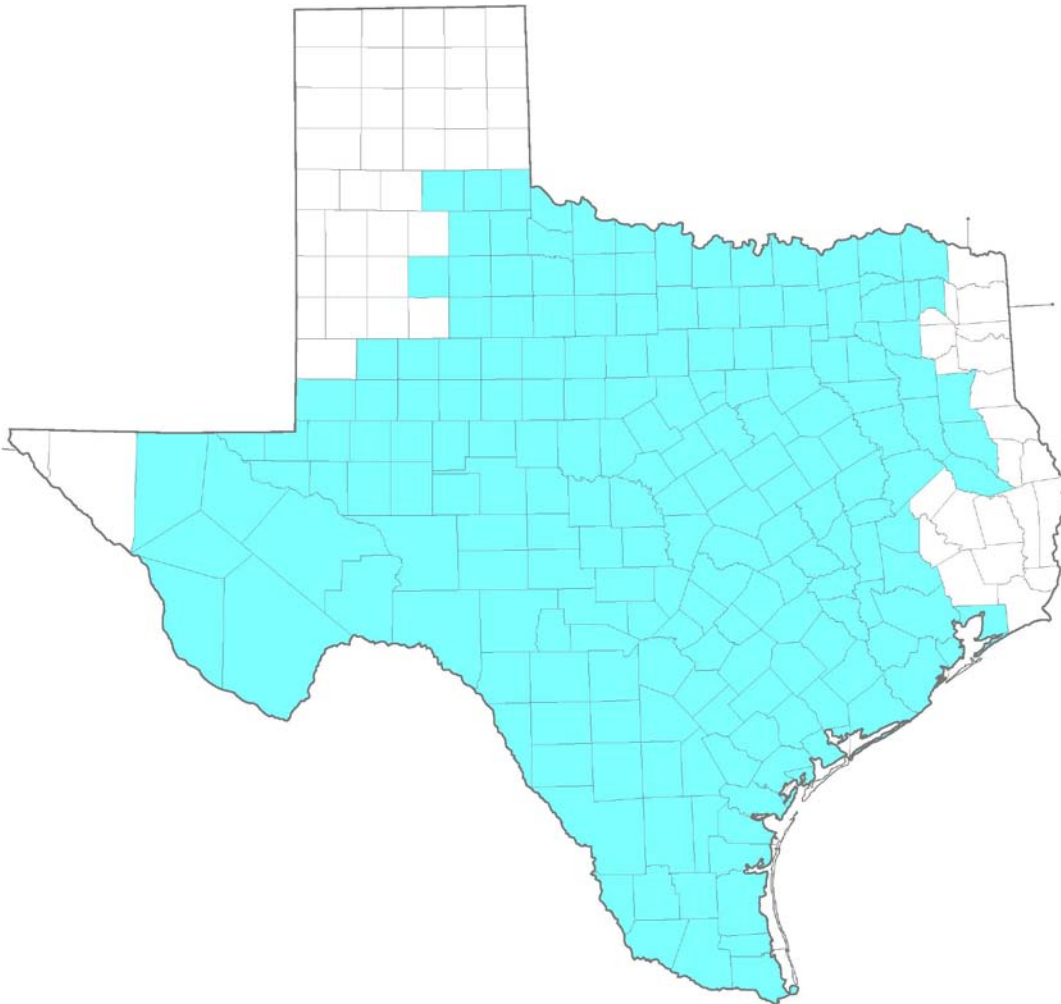
Title: Chief Executive Officer

Date: \_\_\_\_\_, 2010

Date: \_\_\_\_\_, 2010

## **EXHIBIT A – REGIONAL BOUNDARIES**

The geographic boundary of Texas RE is the ERCOT Region, which is the geographic area and associated transmission and distribution facilities that are not synchronously interconnected with electric utilities operating outside the jurisdiction of the Public Utility Commission of Texas. The ERCOT Region does not interconnect synchronously across state lines to import or export power with neighboring reliability regions. The ERCOT geographic region includes 200,000 square miles, 85% of Texas load, and 75% of Texas land area (does not include the Panhandle, El Paso area, and 2 areas of East Texas). The ERCOT Region includes the following Texas cities and towns: Dallas, Ft. Worth, Houston, San Antonio, Austin, Paris, Tyler, Nacogdoches, Lufkin, Bryan, College Station, Corpus Christi, Harlingen, Brownsville, Laredo, Brownwood, San Angelo, Abilene, Midland, Odessa, Fort Stockton, Monahans, Snyder, Vernon, Wichita Falls, Denton, Garland, Greenville, Waco, Temple, Killeen, Weatherford, and Graham. The ERCOT Region is generally indicated on the map below.



## Exhibit B - Governance

Exhibit B shall set forth the Regional Entity's bylaws, which NERC agrees demonstrates that the Regional Entity meets the following criteria:

**CRITERION 1:** The Regional Entity shall be governed by an independent board, a balanced stakeholder board, or a combination independent and balanced stakeholder board. (Federal Power Act § 215(e)(4)(A), 18 C.F.R. § 39.8(c)(1), Order No. 672 at ¶ 727.)

**CRITERION 2:** The Regional Entity has established rules that assure its independence of the users and owners and operators of the bulk power system, while assuring fair stakeholder representation in the selection of its directors. Federal Power Act § 215(c)(2)(A) and (e)(4), 18 C.F.R. § 39.8(c)(2), Order No. 672 at ¶¶ 699, 700.)

**CRITERION 3:** If the Regional Entity has members, the Regional Entity has established rules that assure that its membership is open, that it charges no more than a nominal membership fee and agrees to waive the fee for good cause shown, and that membership is not a condition for participating in the development of or voting on proposed Regional Reliability Standards. (Federal Power Act § 215(c)(2)(A) and (e)(4), 18 C.F.R. § 39.8(c)(2), Order No. 672 at ¶¶ 170-173.)

**CRITERION 4:** The Regional Entity has established rules that assure balance in its decision-making committees and subordinate organizational structures and assure no two industry sectors can control any action and no one industry sector can veto any action. (Federal Power Act § 215(c)(2)(A) and (e)(4), 18 C.F.R. § 39.8(c)(2), Order No. 672 at ¶ 728.)

**CRITERION 5:** The Regional Entity has established rules that provide reasonable notice and opportunity for public comment, due process, openness, and balance of interests in exercising its duties. (Federal Power Act § 215(c)(2)(D) and (e)(4), 18 C.F.R. § 39.8(c)(2).)

**BYLAWS**  
**OF**  
**TEXAS RELIABILITY ENTITY, INC.**

(A Texas Non-Profit Corporation)

January 18, 2010

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## **ARTICLE I. DEFINITIONS**

**Section 1. Definitions.** The capitalized terms used in these Bylaws of Texas Reliability Entity, Inc. (the “Corporation” or “Texas RE”), shall have the meanings set forth below, or if not set forth below, shall have the meanings given them in the NERC Rules of Procedure.

(a) “Affiliate” means any entity controlling, controlled by or under common control with the entity under consideration, and includes any entity (i.e., any commercial enterprise) in any of the following relationships: (i) an entity that directly or indirectly owns or holds at least five percent of the voting securities of another entity, (ii) an entity in a chain of successive ownership of at least five percent of the voting securities of another entity, (iii) an entity which shares a common parent with or is under common influence or control with another entity or (iv) an entity that actually exercises substantial influence or control over the policies and actions of another entity. Evidence of influence or control shall include the possession, directly or indirectly, of the power to direct or cause the direction of the management and/or policies and procedures of another, whether that power is established through ownership or voting of at least five percent of the voting securities or by any other direct or indirect means. In cases where the level of control or influence is disputed, the Board shall have discretion to determine whether or not the entities are Affiliates of one another. Membership in Texas RE shall not create an affiliation with Texas RE.

(b) “Board” means the Board of Directors of the Corporation.

(c) “Bulk Power System” or “BPS” means facilities and control systems necessary for operating an interconnected electric energy transmission network (or any portion thereof) and facilities generating electric energy as needed to maintain transmission system reliability, but does not include facilities used in the local distribution of electricity.

(d) “Commission” or “FERC” means the Federal Energy Regulatory Commission.

(e) “Delegated Authority” means the authority delegated by NERC to the Corporation to propose and enforce NERC Reliability Standards and perform other reliability-related activities in the ERCOT Region under the Delegation Agreement executed by NERC and the Corporation and approved by FERC, pursuant to Section 215 of the Federal Power Act (16 U.S.C. §824n).

(f) “Delegation Agreement” means the agreement between the Corporation and NERC and approved by the Commission which describes the Delegated Authority and may be amended from time to time.

(g) “Electric Reliability Organization” or “ERO” means the organization that is certified by the Commission pursuant to Section 39.3 of its regulations, and has received recognition by appropriate regulatory authorities in Canada and Mexico, as applicable, to establish and enforce Reliability Standards for the Bulk Power Systems of the respective countries and that has entered into a delegation agreement with the Corporation pursuant to which the Electric Reliability Organization delegates enforcement authority for Reliability Standards for the Bulk Power System in the ERCOT Region. NERC was certified as the ERO on July 20, 2006.

(h) “ERCOT Region” means the geographic area and associated transmission and distribution facilities that are not synchronously interconnected with electric utilities operating outside the jurisdiction of the Public Utility Commission of Texas.

(i) “Independent Director” means a person who is not (a) an officer or employee of the Corporation; (b) a NERC Registered Entity or Member or an officer, director, or employee of a Member of the Corporation; or (c) an officer, director, or employee of any company or entity that would reasonably be perceived as having a direct financial interest in the outcome of Board decisions or having a relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of a Director, as more specifically described in Article IV of these Bylaws.

(j) “Initial Director” means a Director named in the Certificate of Formation and seated for formation of the Corporation.

(k) “Member” means a member of the Corporation pursuant to Article III of these Bylaws.

(l) “NERC” means North American Electric Reliability Corporation, the entity certified by FERC as the ERO on July 20, 2006.

(m) “NERC Rules of Procedure” means the Rules of Procedure that are adopted by NERC and approved by the Commission.

(n) “PUCT” means the Public Utility Commission of Texas.

(o) “OPUC” means the Texas Office of Public Utility Counsel.

(p) “Regional Entity” means an entity with a Delegation Agreement with NERC, as ERO, including the following organizations, in addition to Texas Reliability Entity: Florida Reliability Coordinating Council (FRCC), Midwest Reliability Organization (MRO), Northeast Power Coordinating Council (NPCC), ReliabilityFirst Corporation (RFC), Southeastern Electric Reliability Council (SERC), Southwest Power Pool (SPP), and Western Electricity Coordinating Council (WECC).

(q) “Regional Reliability Standard” means a standard for the ERCOT Region that is proposed and approved in accordance with the Texas RE Standards Development Process, as set forth in Exhibit C to the Delegation Agreement, and either, (i) sets more stringent reliability requirements than a national Reliability Standard, or (ii) covers matters not covered by a national Reliability Standard.

(r) “Registered Entity” means an entity that is registered with NERC and listed on the NERC Compliance Registry (available at [www.nerc.com](http://www.nerc.com)).

(s) “Reliability Standard” means a requirement to provide for Reliable Operation of the Bulk-Power System, which is approved by NERC and the Commission, pursuant to Section 215 of the Federal Power Act and all amendments thereto. This term includes requirements for the operation of existing Bulk-Power System facilities, including cybersecurity protection, and the design of planned additions or modifications to such facilities to the extent necessary to provide for Reliable Operation of the Bulk-Power System.



(t) “Reliable Operation” means operating the elements of the Bulk Power System within equipment and electric system thermal, voltage, and stability limits so that instability, uncontrolled separation, or cascading failures of the Bulk Power System will not occur as a result of a sudden disturbance, including a cybersecurity incident, or unanticipated failure of system elements.

(u) “Sector” means a group of Members of the Corporation that are Bulk Power System owners, operators, or users, as defined in Article III, Section 4 of these Bylaws. Each Sector shall constitute a class of Members for purposes of Chapter 22 (Nonprofit Corporations) of the Texas Business Organizations Code.

## **ARTICLE II. PURPOSE**

**Section 1. General Purpose.** The purpose of the Corporation is to preserve and enhance reliability in the ERCOT Region. In furtherance of this goal, the Corporation will:

(a) Perform Reliability Standards development, compliance monitoring, compliance enforcement, and other related activities as a Regional Entity, pursuant to 16 U.S.C. §824n, in accordance with the Corporation’s Delegation Agreement with NERC;

(b) Carry out other activities as set forth in the Delegation Agreement, the NERC Rules of Procedure, or as otherwise required or requested by NERC, in support of the Delegated Authority, including but not limited to organization registration and certification, reliability assessment and performance analysis, training and education, and situational awareness and infrastructure security; and

(c) Engage in any other lawful act or activity that is not in conflict with the Corporation’s duties as a Regional Entity and for which non-profit corporations may be organized under the Texas Business Organizations Code.

**Section 2. Non-Profit Corporation.** The Corporation is a Texas non-profit corporation.

**Section 3. Geographic Area.** The Corporation will perform its operations primarily within the ERCOT Region. The ERCOT Region includes 200,000 square miles, 85% of Texas load, and 75% of Texas land area (does not include the Panhandle, El Paso area, and 2 areas of East Texas). The ERCOT Region includes the following Texas cities and towns: Dallas, Ft. Worth, Houston, San Antonio, Austin, Paris, Tyler, Nacogdoches, Lufkin, Bryan, College Station, Corpus Christi, Harlingen, Brownsville, Laredo, Brownwood, San Angelo, Abilene, Midland, Odessa, Fort Stockton, Monahans, Snyder, Vernon, Wichita Falls, Denton, Garland, Greenville, Waco, Temple, Killeen, Weatherford, and Graham, and does not interconnect synchronously across state lines to import or export power with neighboring reliability regions.

## **ARTICLE III. MEMBERSHIP**

**Section 1. Members.** The Corporation is a membership corporation. Membership in the Corporation is voluntary and is open only to any entity that is a user, owner or operator of the ERCOT Region Bulk Power System, registers with the Corporation as a Member, maintains its registration in accordance with this Article III, and complies with the other conditions and obligations of membership specified in these Bylaws. All Members must qualify and be registered in one of the Sectors defined in Article III, Section 4. Membership in the Corporation is not a condition to participating in the development or consideration of proposed Regional Standards.

**Section 2. Registration as a Member.** Any entity that is eligible to be a Member of the Corporation in accordance with Article III, Section 1 may become a Member by completing and submitting to the secretary of the Corporation a membership registration on a form prescribed by the Corporation. The Member shall designate one representative and an alternative representative with authority to receive notices, cast votes, and execute waivers and consents on behalf of the Member. The secretary of the Corporation shall maintain a current roster of the Members of the Corporation including each Member's designated representative and alternative representative. From time to time, the Board shall establish a date by which Members shall submit their registration renewals. All Members shall be required to renew their registrations annually and within 30 calendar days of a request by an officer of the Corporation, using a registration renewal form prescribed by the Corporation. The secretary of the Corporation shall remove from the roster of Members of the Corporation any Member that has not submitted a registration renewal within 30 days following a date established by the Corporation. The secretary shall inform any Member that is removed from the roster of Members of such removal, by sending notice to such former Member's last known address on the records of the Corporation.

### **Section 3. Obligations and Conditions of Membership.**

(a) Members must agree to promote, support, and comply with Reliability Standards, and assist the Corporation in its compliance with the terms and provisions of the Corporation's Delegation Agreement with NERC. Each Member shall agree, in writing, to accept the responsibility to comply with policies of NERC and the Corporation as set forth in their respective certificates of formation, bylaws, rules of procedure, and Reliability Standards, as applicable, as from time to time adopted, approved, or amended.

(b) As an additional condition of membership in the Corporation, each Member shall be required to execute an agreement with the Corporation, in a form to be specified by the Corporation, that such entity will hold all Directors, officers, employees, and agents of the Corporation, as well as volunteers participating in good faith in the activities of the Corporation, harmless for any injury or damage caused by any act or omission of any director, officer, employee, agent, or volunteer in the course of performance of his or her duties on behalf of the Corporation, other than for willful acts of misconduct.

(c) Consistent with applicable laws and regulations, Members must share nonproprietary information at the Corporation's request as necessary for the furtherance of the Corporation's activities and consistent with NERC, PUCT, or any other applicable rules relating to confidentiality.

**Section 4. Membership Sectors.** Each Member shall elect to be assigned to one of the following membership Sectors:

(a) **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).

(b) **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.

(c) **Cooperative:** 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 and is registered with NERC for at least one reliability function.

(d) **Municipal Utility:** A municipally owned utility as defined in PURA §11.003 and is registered with NERC for at least one reliability function.

(e) **Generation:** An entity that is registered with NERC as a Generator Owner (GO) or Generator Operator (GOP).

(f) **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.

**Section 5. Participation.**

(a) There is only one level of Membership, and no company or entity may simultaneously hold more than one Membership.

(b) Members must qualify in and join a Sector.

(c) A Member that is eligible for more than one Sector may join only one Sector and it must be the most appropriate Sector for its business. Any disputes regarding appropriateness of a Member's Sector will be decided by a majority vote of the Board.

(d) A company or entity that is an Affiliate of a Member may hold a separate membership in a different Sector, so long as the legal entities have different NERC Compliance Registry Numbers under which they are currently registered for the applicable NERC reliability function.

(e) A Member must continue to vote in the same Sector for a minimum of the remainder of the fiscal year in which it becomes a Member or until it is no longer eligible to remain in such Sector, and it must give notice to the Corporate secretary when it elects or is required to change Sectors.

(f) The Board may review the Sector qualification of any Member and may determine that a Member does not qualify for, and require them to change Sectors.

(g) A Member which is no longer eligible or not in good standing may not vote on any matters that require membership.

**Section 6. Membership Fees.** Members must pay an annual Membership Fee of \$250, to offset the expenses of membership qualification, coordination, and meetings, unless the Board waives the fee for any Member for good cause shown. The Board may agree to change the amount or frequency of the Membership Fee, from time to time, by majority vote.

**Section 7. Term of Membership.** Membership in the Corporation must be renewed on an annual basis and will only be retained as long as a Member meets its respective qualifications, obligations, and conditions of membership as set forth in these Bylaws. Membership is conditioned on the annual payment of Membership Fees, unless the Membership Fees are waived by the Board for good cause shown, as determined in the Board's sole discretion.

**Section 8. Removal.** No Member or Member representative may be sanctioned, expelled or suspended and no membership in the Corporation may be terminated or suspended except pursuant to a procedure that is fair and reasonable and is carried out in good faith. The Board may, by resolution, establish a procedure to terminate, expel, suspend, or sanction a Member following notice to the Member and exercise of appropriate due process procedures and a determination by the Board in its sole discretion that in its judgment the Member has violated its obligations and responsibilities to the Corporation. In the event that the Board does not adopt procedures, the following procedures shall apply:

(a) Written notice. Written notice of intent to terminate, expel, suspend or sanction a Member shall be delivered at least twenty (20) days in advance of the date when a hearing will be held to determine whether the Member shall be expelled, suspended, terminated or sanctioned. Such notice shall set forth the reasons therefore. Said notice must be given by facsimile (receipt confirmed), e-mail (receipt confirmed) or first class or certified mail sent to the last address of the Member to be expelled, suspended, terminated or sanctioned, as shown in the Corporation's records.

(b) Hearing. An opportunity shall be provided for the Member receiving such notice to be heard by the Board at the hearing, orally and in writing. The Member shall be entitled to have counsel present, and to participate in the hearing, at its own expense, and to present and cross-examine any witnesses.

(c) Liability. A Member which has been sanctioned, expelled, terminated or suspended shall remain liable to the Corporation for fees as a result of obligations incurred or commitments made prior to sanction, expulsion, termination or suspension.

(d) Challenges. Any proceeding challenging an expulsion, suspension, sanction or termination, including a proceeding in which defective notice is alleged, may be submitted to the Board in writing within one year after the effective date of the expulsion, suspension, sanction or termination. If the Board determines to hear such challenge, it shall notify the Member and such proceeding will be subject to the hearing requirements described in subsection (b) above of this Section 8.

**Section 9. Resignation.** Any other provision of these Bylaws notwithstanding, any Member may withdraw from participation in the activities of the Corporation at any time upon written notice to the chief executive officer or president of the Corporation, whereupon it

shall cease to be a Member, and its representatives shall cease to be entitled or obligated to participate in the activities of the Board or any activities requiring membership.

**Section 10. Reinstatement.** A former Member may submit a written request for reinstatement of Membership. The Board will reinstate the Membership unless the entity does not meet the Membership qualifications set forth in these Bylaws.

#### **ARTICLE IV. BOARD OF DIRECTORS**

**Section 1. Board of Directors.** The business and affairs of the Corporation shall be managed by the Board. The Board shall consist of (i) four (4) Independent Directors who are nominated and elected in accordance with the requirements and procedures specified in this Article IV (the "Independent Directors"); (ii) the Chairman of the PUCT or another PUCT Commissioner designated by the Chairman, as an *ex officio* non-voting member; (iii) Texas Public Counsel, from OPUC (or another employee of OPUC designated by Texas Public Counsel), as an *ex officio* non-voting member, representing the interests of residential and small commercial electricity consumers; (iv) the CEO of the Corporation as a voting member (the "Management Director"); (v) the chair of the Member Representatives Committee as a voting member; and (vi) the vice chair of the Member Representatives Committee as a voting member. The Directors who are the chair and vice chair of the Member Representatives Committee will be collectively referred to herein as "Affiliated Directors." Each Director, including the Affiliated Directors and excluding the non-voting members of the Board, shall have one (1) vote on any matter brought before the Board for a vote. All Directors are expected to serve the public interest and to represent the reliability concerns of the entire ERCOT Region Bulk Power System.

**Section 2. Independent Directors.** The Independent Directors shall be elected, shall have the qualifications specified, and shall serve in the manner provided in this Section.

(a) Qualifications:

(1) Experience in one or more of these fields: senior corporate leadership; professional disciplines of finance, accounting, engineering, bulk power systems, or law; regulation of utilities; and/or risk management.

(2) Independence of any NERC registered entity, including ERCOT ISO, and any ERCOT Region Market Participant. Requirements of independence include but are not limited to the following:

(i) Independent Directors and the immediate family (any spouse, mother, father, sibling, or dependent, and any spouse of mother, father, or sibling and including any step and adoptive parents, siblings or children) and household members of Independent Directors and their spouses shall not have current or recent status (within the last two years) as a director, officer or employee of an ERCOT Region NERC Registered Entity or ERCOT Region Market Participant.

(ii) Independent Directors and immediate family and household members of Independent Directors shall not have current status as a director, officer or employee of a non-ERCOT Region NERC Registered Entity.

(iii) Independent Directors and immediate family and household members of Independent Directors shall not have direct business relationships, other than retail customer relationships, with any NERC Registered Entity or Market Participant.

(iv) To the extent that an Independent Director or his or her spouse, dependent child, or any other household member owns stocks or bonds of NERC Registered Entities or Market Participants, these must be divested or placed in a blind trust prior to being seated on the Board.

(v) Independent Directors shall not have any relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of a Board member, including the Delegated Authority.

(vi) Other criteria as approved by the Board.

(b) Term. Except for the Initial and originally elected Directors, the term for Independent Directors shall be staggered three year terms. An Independent Director may be elected for up to three consecutive terms. Notwithstanding the foregoing, the Directors named as Initial Directors will serve only until the first membership meeting of the Corporation at which Independent Directors are elected. If an Initial Director is qualified to be an Independent Director and elected by the membership, such Director's term as an Initial Director shall not be counted for purposes of term limits. For the originally elected Independent Directors, two positions will have three year terms, one position will have a two year term, and one position will have a one year term. The term for the Affiliated Directors who are chair and vice chair of the Member Representatives Committee shall be one year, and the terms of the *ex officio* Directors will not expire.

(c) Selection.

(1) Except for the selection of the Initial Directors, the Board shall appoint, on an annual basis, or more frequently if needed in the event of a special election pursuant to this subsection, a nominating committee (the "Nominating Committee") to recommend candidates (i) to succeed the Independent Directors whose terms expire during the current year and (ii) to serve the remainder of the term of any Independent Director who ceased to serve as a Director subsequent to the last annual election of Directors. Except for the original Nominating Committee appointed by the Initial Directors ("Initial Nominating Committee"), the Nominating Committee shall consist of all Independent Directors except those whose terms expire during the current year and are seeking re-election and Affiliated Directors and such other persons with such qualifications as the Board shall specify (provided that such other persons may not vote), provided that the Independent Directors shall constitute a majority of the voting members of the Nominating Committee. The Initial Nominating Committee will consist of the Initial Directors except the Management Director (as defined in Article IV, Section 3), and at least two other persons selected by these Initial Directors to represent the interests of the Membership. The PUCT Chair may choose to participate on the Nominating Committee. If any Nominating Committee should have only two eligible Independent Directors for any reason, the requirement that Independent Directors must constitute a majority of the voting members will be removed to allow both Affiliated Directors to participate on the Nominating Committee. The Nominating Committee may retain an executive search

firm to locate and present candidates with the required qualifications, as set forth in Article IV, Section 2(a).

(2) The Nominating Committee shall interview the qualified candidates and select and nominate, by at least a two-thirds majority, qualified candidate(s), consistent with the objectives that the Board as an entirety shall reflect expertise in the areas of technical electric operations and reliability, legal, senior corporate leadership, financial, risk management, and regulatory matters, and familiarity with regional system operation issues in the ERCOT Region, to present to the Membership for its approval.

(3) The Membership shall vote by Sector as described in Article V in favor or against the proposed Independent Director(s). A proposed Independent Director who is approved by a majority of the Sectors shall become an Independent Director.

(d) Director Voting Weights. All voting Directors shall have a single vote each.

(e) Alternates and Proxies. Independent Directors may designate another Independent Director as a proxy if unable to attend a Board meeting. Ex officio Directors may designate a selected proxy or an alternate representative who may attend meetings in the absence of such Director. The chair and vice chair of the Member Representatives Committee may designate each other or may designate an Independent Director as their proxy if unable to attend a Board meeting.

**Section 3. Appointment of Management Director.** The president and chief executive officer (CEO) of the Corporation shall serve as the Management Director of the Corporation, effective as of the date of his or her appointment by the Board as CEO of the Corporation in accordance with these Bylaws, to serve until such time that he or she ceases to hold the position of CEO. No action of the Members of the Corporation shall be required in connection with the appointment of the CEO as the Management Director of the Corporation.

**Section 4. Chair and Vice Chair.** Annually, the Board shall elect from the Board's membership, by resolution of the Board, a Chair and a Vice Chair. The Chair and Vice Chair shall each be one of the Independent Directors.

**Section 5. Vacancies and Removal.**

(a) Should any vacancy on the Board arise from the death, resignation, retirement, disqualification, or removal from office of any Director, or from any other cause, such vacancy shall be filled as follows:

(1) For an Independent Director, by the election of a new Independent Director at the next annual election of Directors to fill the remainder, if any, of the term of the departed Independent Director. provided, that the Board by resolution may in its discretion call a special election to fill any such vacancy for the remainder, if any, of the term of the departed Independent Director.

(2) For the Management Director, by the appointment of a new CEO or interim CEO to fill the vacancy.

(3) For an ex officio Director, by the appointment of a new PUCT Chair or Texas Public Counsel by whomever had the right to appoint such Director.

(4) For an Affiliated Director, by the election of a new chair or vice chair, as applicable, by the Member Representative Committee.

(b) A Director may be removed with or without cause at any time by whomever had the right to appoint such Director (for ex officio Directors), or for the elected Independent Directors, by an affirmative vote of sixty percent (60%) of the Members. In addition, the Board may remove any voting Director for cause, upon at least seventy-five percent (75%) affirmative votes of the eligible, remaining voting Directors. The right to elect Directors may not be assigned, sold, pledged or transferred in any manner.

**Section 6. Committees of the Board.** The Board shall by resolution create and appoint all committees of the Board as the Board deems necessary to perform its responsibilities. All committees of the Board shall have such duties as are prescribed and delegated by the Board. Committees to which any of the authority of the Board to manage the Corporation is delegated must have at least two Directors, and a majority of the members of the committee must be Directors.

## **ARTICLE V. MEETINGS OF MEMBERS OF THE CORPORATION**

### **Section 1. Annual and Other Meetings of Members.**

(a) An annual meeting of the Members to elect Directors and to conduct such other business as may come before the meeting shall be held on or about December 1 of each year or as soon thereafter as is reasonably practicable.

(b) Meetings of Members of the Corporation may be called for any purpose or purposes by resolution of the Board, by the chair of the Board, the CEO or the secretary of the Corporation, or by a number of Members constituting at least ten (10) percent of all Members on the roster of Members maintained by the secretary of the Corporation, which number shall include Members in at least three of the Sectors. Meetings of Members shall be held at the principal office of the Corporation or at such other place fixed by the Board as shall be specified in the notice of meeting. Meetings shall be called upon written notice of the time, date, place, and purposes of the meeting given to all Members on the roster of Members maintained by the secretary of the Corporation not less than ten (10) nor more than sixty (60) days prior to the date of the meeting. Only Members in good standing with the Corporation, as determined by the Board, have the right to vote at any meeting of the Members. Further, if at any point a Member no longer meets the qualifications for the Sector of which it is a member, the Entity may immediately elect to become a member in any Sector for which it does qualify.

### **Section 2. Quorum and Voting Requirements for Meetings of Members.**

(a) At any meeting of the Members of the Corporation, attendance in person or by proxy by a majority of the Members in each of at least two-thirds of the Sectors on the roster of Members maintained by the secretary of the Corporation shall constitute a quorum.

(b) Except as otherwise expressly provided in the Corporation's Certificate of Formation, these Bylaws, or applicable law, Members shall vote by Sector and each Sector shall have one vote.



(c) Except as otherwise expressly provided in the Corporation's Certificate of Formation, these Bylaws or applicable law, actions by the Members of the Corporation shall be approved upon receipt of the affirmative vote of a majority of the Sectors of the Corporation at a meeting at which a quorum is present, in person or by proxy. Each Sector's vote shall be determined by the affirmative vote of a majority of the members of the Sector voting at the meeting.

**Section 3. Waivers of Notice of Meetings of Members and Member Meeting Adjournments.** Notice of a meeting of Members need not be given to any Member who signs a waiver of notice, in person or by proxy, whether before, during, or after the meeting. The attendance of any Member at a meeting, in person or by proxy, without protesting prior to the conclusion of the meeting the lack of proper notice of such meeting, shall constitute a waiver of notice of the meeting by such Member. When any meeting of Members is adjourned to another time or place, it shall not be necessary to give notice of the adjourned meeting if the time and place to which the meeting is adjourned are announced at the meeting at which the adjournment is taken, and if at the adjourned meeting only such business is transacted as might have been transacted at the original meeting.

**Section 4. Action Without a Meeting of Members.** Any action, required or permitted to be taken at a meeting of Members, may be taken without a meeting if the proposed action is posted to all Members (via email to an email distribution list to which Members may subscribe and by posting on the Corporation website) and consented to in writing by the minimum number of Members that would be required to approve the action at a meeting of the Members at which all Members were present. The voting in such a circumstance shall be performed in writing, including via email or other electronic means. The Members shall receive written notice of the results within ten (10) days of the action vote, and all written responses of the Members shall be filed with the Corporate records. The results of such voting will be posted on the Corporation's website.

**Section 5. Meetings of the Members to be Open.** Notice to the public of the dates, places, and times of meetings of the Members, and all non-confidential material provided to the Members, shall be posted on the Corporation's website at approximately the same time that notice is given to the Members. Meetings of the Members shall be open to the public, subject to reasonable limitations due to the availability and size of meeting facilities; provided, that the meeting may be held in or adjourned to closed session to discuss matters of a confidential nature, including but not limited to compliance and enforcement matters, personnel matters, litigation, or commercially sensitive or critical infrastructure information of the Corporation or any other entity. The results of any action taken without a meeting, as described above, will be posted on the Corporation's website.

## **ARTICLE VI. MEETINGS OF THE BOARD OF DIRECTORS**

**Section 1. Regular Meetings of the Board.** Regular meetings of the Board shall be held at least quarterly. By resolution adopted at any meeting of the Board, the Board may provide for additional regular meetings that may be held as needed.

**Section 2. Special Meetings of the Board.** Special meetings of the Board for any purpose or purposes may be called at any time by the chair or by any two Directors. Such meetings may be held upon notice given to all Directors not less than three (3) days prior to the date of the meeting. Such notice shall specify the time, date, place, and purpose or purposes of

the meeting and may be given by telephone, email or other electronic media, or by express delivery.

**Section 3. Quorum and Voting Requirements for Meetings of the Board.**

The Board consisting of the Initial Directors (“Initial Board”) may conduct only organizational business of the corporation, including but not limited to approving these Bylaws, authorizing the opening of a bank account, appointing officers, approving the Delegation Agreement and reviewing and approving the Corporation’s business plan and budget. The quorum necessary for transaction of business by the Initial Board shall be a majority of the Initial Directors, either in person or by proxy, at meetings at which a quorum is present. Thereafter, unless otherwise expressly provided in the Corporation’s Certificate of Formation, these Bylaws or applicable law, (i) the quorum necessary for the transaction of business at meetings of the Board shall be a majority of the voting Directors in person or by proxy and at least three Independent Directors, and (ii) actions by the Board shall be deemed approved upon receipt of the affirmative vote of a majority of the Directors present and voting in person or by proxy at a meeting at which a quorum is present but in no case less than four votes.

**Section 4. Meetings of the Board to be Open.**

Notice to the public of the dates, places, and times of meetings of the Board, and all non-confidential material provided to the Board, shall be posted on the Corporation’s website at approximately the same time that notice or such material is given to the Directors and at least ten (10) business days prior to the scheduled meeting; provided however that the Board may meet on urgent matters on such shorter notice, not less than two (2) hours, as the person(s) calling such meeting may deem necessary or appropriate for urgent matters (emergency conditions threatening health or safety or a reasonably unforeseen situation). Meetings of the Board shall be open to the public, subject to reasonable limitations due to the availability and size of meeting facilities; provided, that the Board may meet in or adjourn to closed session to discuss matters of a confidential nature, including but not limited to compliance and enforcement matters, personnel matters, litigation, or commercially sensitive or critical infrastructure information of the Corporation or any other entity. Any or all of the Directors or members of a Board committee, may participate in a meeting of the Board, or a meeting of a committee, in person or by proxy, by means of any communications system by which all persons participating in the meeting are able to hear each other.

**Section 5. Waivers of Notice of Board Meetings and Board Meeting Adjournments.**

Notice of a board meeting need not be given to any Director who signs, or sends an email confirming a waiver of notice, in person or by proxy, whether before, during, or after the meeting, or who attends the meeting without protesting, prior to the conclusion of the meeting, the lack of notice of such meeting. Notice of an adjourned board meeting need not be given if the time and place to which the meeting is adjourned are announced at the meeting at which the adjournment is taken and if the period of adjournment does not exceed ten (10) days.

**Section 6. Action Without a Meeting.**

Any action required or permitted to be taken at a meeting of the Board, or of any committee thereof, may be taken by the Board or by the committee without a meeting if the action is consented to in writing by the number of Directors or members of the committee, as the case may be, entitled to vote on the action that would be required to approve the action at a meeting of the Board or committee with all members of the Board or committee present. The call for action without a meeting of the Board may be initiated by the chair or by any two Directors. Notice of the proposed call for action without a meeting, and all non-confidential material provided to the Board in connection with the call for action without a meeting, shall be posted on the Corporation’s website and sent via email to an email distribution list to which Members and the public may subscribe at

approximately the same time notice of the call for action without a meeting or such material is provided to the Board. The call for action without a meeting of a committee of the Board may be initiated by the chair of the committee or by any two members of the committee. The Directors or members of the committee shall receive written notice of the results of such action within seven (7) days of the action vote. All written responses of the Directors shall be filed with the minutes of the Corporation, and all written responses of members of a committee shall be filed with the minutes of such committee.

## **ARTICLE VII. OFFICERS**

**Section 1. Selection of Officers.** At a meeting held in accordance with Article VI of these Bylaws, the Board shall elect a CEO and shall approve a corporate secretary and such other officers of the Corporation (collectively, the "Officers") as it shall deem necessary. The CEO shall be nominated and elected by the Board. All of the other Officers shall be selected by the CEO and approved by the Board, and the removal of all Officers shall be confirmed by the Board. The Management Director shall not participate in votes electing, approving, or removing Officers. The duties and authority of the Officers shall be determined from time to time by the Board. Subject to any such determination, the Officers shall have the following duties and authority:

**Section 2. Chief Executive Officer ("CEO").** The CEO shall be the chief executive officer of the Corporation. He or she shall be responsible for the day-to-day ongoing activities of the Corporation and shall have such other duties as may be delegated or assigned to him or her by the chair. The CEO may enter into and execute in the name of the Corporation contracts or other instruments not in the regular course of business that are authorized, either generally or specifically, by the Board.

**Section 3. Corporate Secretary.** The secretary shall maintain the roster of Members of the Corporation, shall cause notices of all meetings to be served as prescribed in these Bylaws, shall keep or cause to be kept the minutes of all meetings of the Members and the Board, and shall have charge of the seal of the Corporation. The secretary shall perform such other duties and possess such other powers as are incident to his or her office or as shall be assigned to him or her by the CEO

**Section 4. Chief Financial Officer.** If hired and approved, a chief financial officer shall have custody of the funds and securities of the Corporation, shall keep or cause to be kept regular books of account for the Corporation and shall have the duties normally assigned to a treasurer of a corporation. The chief financial officer shall perform such other duties and possess such other powers as are incident to his or her office or as shall be assigned to him or her by the CEO.

**Section 5. Vice Presidents.** The CEO may select such other Corporate officers as he or she deems appropriate, subject to Board approval. Any such officer shall perform such other duties and possess such powers as are incident to his or her office or as shall be assigned to him or her by the CEO.

## **ARTICLE VIII. RELIABILITY STANDARDS COMMITTEE**

**Section 1. Requirement.** The Corporation shall have a Reliability Standards Committee, which shall operate in accordance with the Standards Development Process as set

forth in Exhibit C to the Delegation Agreement with NERC and approved by FERC. The chair and vice chair of the Standards Committee must be accepted or approved by the Board, in accordance with said Exhibit C.

## **ARTICLE IX. MEMBER REPRESENTATIVES COMMITTEE**

**Section 1. Purpose of Member Representatives Committee.** The Corporation shall have a "Member Representatives Committee" that shall provide advice and recommendations to the Board with respect to: annual budgets, business plans and funding mechanisms of the Corporation; other matters relevant to reliability of the ERCOT Bulk Power System; and other matters pertinent to the purpose and operations of the Corporation. The Member Representatives Committee shall provide its advice and recommendation to the Board through its chair and the vice chair, who also serve as the Affiliated Directors on the Board. The Member Representatives Committee may create subcommittees, task forces, or working groups ("subcommittees") as it deems appropriate to study or discuss selected technical or compliance matters and to make recommendations to the Board as requested or required by the Board or as deemed appropriate to its purpose by the Member Representatives Committee. Because it is elected by the Members of the Corporation and not appointed by the Board, the Member Representatives Committee shall not be a standing committee of the Board of Directors of the Corporation, but is authorized to provide advice and recommendations directly to the Board, through its elected chair and vice chair.

**Section 2. Composition of the Member Representatives Committee.** The Member Representatives Committee shall consist of two representatives from each Sector to serve annually and will annually select a chair and vice chair for the Member Representatives Committee. The representatives of each Sector shall be officers, employees, or directors of Members in that Sector; provided however, except for a Sector that has only one Member, only one officer, employee, or director of a Member in a Sector may be a representative from that Sector. The Board may by resolution create additional non-voting positions on the Member Representatives Committee on its own initiative or at the written request of any group of Members of the Corporation that believes its interests are not adequately represented on the Member Representatives Committee. There shall be no limit on the number of terms that an officer, employee, or director of a Member, may serve on the Member Representatives Committee.

**Section 3. Election of Representatives of the Member Representatives Committee.** Unless a Sector adopts an alternative election procedure, the annual election of representatives from each Sector to the Member Representatives Committee, and any election to fill a vacancy, shall be conducted in accordance with the following process, which shall be administered by the officers of the Corporation.

(a) During the period beginning no more than ninety (90) days and ending no less than fifteen (15) days prior to an annual meeting, or beginning no more than forty-five (45) days and ending no less than fifteen (15) days prior to a special meeting called in whole or in part to hold an election to fill a vacancy, nominations may be submitted for candidates for election to the Member Representatives Committee. A nominee for election as a Sector representative must be an officer, employee, or director of a Member in that Sector. No more than one nominee who is an officer, employee, or director of a Member may stand for election in any single Sector; if more than one officer, employee, or director of a Member is nominated for election from a Sector, the Member shall designate which such nominee shall stand for election.

The election of representatives shall be conducted over a period of ten (10) days using an electronic process approved by the secretary of the Corporation.

(b) Each Member in a Sector shall have one vote for each Representative to be elected from the Sector in that election and may cast no more than one vote for any nominee. The nominee receiving the highest number of votes in each Sector shall be elected to one Representative position to be filled from that Sector and the nominee receiving the second highest number of votes shall be elected as the second Representative position for that Sector. To be elected on the first ballot, a nominee must receive a number of votes equal to a simple majority of the Members in the Sector casting votes in the election. If no nominee in a Sector receives a simple majority of votes cast in the first ballot, a second ballot shall be conducted which shall be limited to the number of candidates receiving the three (3) highest vote totals on the first ballot. The nominees receiving the two highest totals of votes on the second ballot shall be elected to the Representative positions for the Sector.

(c) A Sector may adopt an alternative procedure to the foregoing to nominate and elect its Representatives to the Member Representatives Committee if the alternative procedure is approved by vote of at least two-thirds of the Members in the Sector, provided, however that any alternative procedure may be reviewed and disapproved by the Board.

(d) A Sector may elect an Alternate to serve in place and at the convenience of the Sector's Member Representatives Committee Representative(s) in the event a Member Representatives Committee Representative cannot attend a Member Representatives Committee meeting.

**Section 4. Chair and Vice Chair of the Member Representatives Committee.** After the annual selection of its Representatives, the Member Representatives Committee shall select a chair and vice chair from among its voting Representatives by majority vote to serve during the upcoming year and be the Affiliated Directors on the Board. The selected chair and vice chair may not be representatives of the same Sector and may not concurrently serve on the Board of ERCOT ISO. The Board shall be notified of the selection of the chair and vice chair, but the selection will not be subject to approval of the Board. The chair is responsible for ensuring that minutes of the meetings are properly maintained and made available to the public, but the chair may delegate this responsibility to the vice chair or to another Representative of the Member Representatives Committee who may be designated as secretary of the Member Representatives Committee.

**Section 5. Vacancies on the Member Representatives Committee.** In the event that any Representative of the Member Representatives Committee ceases to serve as a Representative of the Member Representatives Committee as a result of his or her death, resignation, retirement, disqualification, removal, or other cause, the Members in the Sector of which such Representative was a representative shall elect, as soon thereafter as reasonably practicable, and in accordance with the procedures in this Article IX, a new Representative to replace the Representative of the Member Representatives Committee who ceased to serve. For those Sectors that have elected an Alternate, the Alternate will fill a vacancy left by the Sector's Member Representative and a new Alternate will be elected by the Sector.

**Section 6. Meetings of the Member Representatives Committee.** The Member Representatives Committee will plan and hold quarterly meetings, at a time and place determined by the Member Representatives Committee, normally shortly before the regular meetings of the Board, and posted on the Corporation's website. Except for closed session meetings specifically allowed by this Section, all meetings shall be open to the public. The

Member Representatives Committee shall adopt such procedural rules as are needed to operate in accordance with its purpose and will include procedures for coordinating with employees of the Corporation who provide administrative support, as set forth in subsection 6(c), below.

(a) Notice to the public of the dates, places, and times of meetings of the Member Representatives Committee and any subcommittees thereof, and all non-confidential material provided to the Representatives on the Member Representatives Committee or any subcommittees thereof, shall be posted on the Corporation's website at approximately the same time that notice or such material is given to the Member Representatives Committee, which will normally be at least one week prior to any meeting. Meetings of the Member Representatives Committee shall be open to the public, subject to reasonable limitations due to the availability and size of meeting facilities; provided, that the Member Representatives Committee may meet in or adjourn to closed session to discuss matters of a confidential nature, including but not limited to confidential planning information, critical infrastructure information, or commercially sensitive information of the Corporation or any other entity. Any or all Representatives of, and any other participants in, the Member Representatives Committee may participate in a meeting of the Member Representatives Committee by means of a communications system by which all persons participating in the meeting are able to hear each other.

(b) Special meetings may be called for any purpose or purposes by the chair of the Member Representatives Committee or by any three (3) Representatives of the Member Representatives Committee, which number shall include representatives from at least three Sectors, and require notice given to all Representatives of the Member Representatives Committee not less than seven (7) days prior to the date of the meeting. Such notice shall specify the time, date, place, and purpose or purposes of the meeting and may be given by telephone, facsimile, or other electronic media, or by express delivery.

(c) The Member Representatives Committee shall effectively coordinate with the employees of the Corporation and adopt procedural rules for the voting for Representatives, scheduling of meetings, and public posting of required meeting information and minutes. The chair or vice chair of the Member Representatives Committee shall provide all meeting agendas, material, minutes and other information required or desired to be posted on the Corporation's website to appropriate Corporation employees at least one business day prior to the time such information should be posted.

**Section 7. Waivers of Notice of Meetings of the Member Representative Committee and Meeting Adjournments.** Notice of a meeting of the Member Representatives Committee need not be given to any member of the Member Representatives Committee who signs a waiver of notice, in person or by proxy, whether before or after the meeting, or who attends the meeting without protesting, prior to the conclusion of the meeting, the lack of notice of such meeting. Notice of an adjourned meeting of the Member Representatives Committee need not be given if the time and place to which the meeting is adjourned are announced at the meeting at which the adjournment is taken and if the period of adjournment does not exceed ten (10) days.

**Section 8. Quorums and Voting for Meetings of the Member Representatives Committee.** The quorum necessary for the transaction of business at meetings of the Member Representatives Committee shall be the presence, in person or by proxy, of two-thirds of the voting Representatives on the Member Representatives Committee entitled to attend. Each voting member of the Member Representatives Committee shall have one (1) vote on any matter coming before the Member Representatives Committee that requires

a vote. Except as otherwise expressly provided in the Corporation's Certificate of Formation, these Bylaws or applicable law, actions by members of the Member Representatives Committee shall be approved upon receipt of the affirmative vote of a majority of the voting members of the Member Representatives Committee present and voting at any meeting at which a quorum is present.

**Section 9. Alternates and Proxies.** Member Representatives may designate another Member Representative or an employee of the Member Representative's organization as a proxy if both the Member Representative and the Sector Alternate are unable to attend a Member Representatives Committee meeting. A member of the Member Representatives Committee may give a proxy only to a person who is an officer, employee, or director of a Member, registered in the same Sector.

**Section 10. Other Procedures of the Member Representatives Committee.** The chair of the Board shall preside at the initial meeting of the Member Representatives Committee, until a chair is selected in accordance with Article IX, Section 4. Except as to any matter as to which the procedure to be followed by the Member Representatives Committee is expressly set forth in these Bylaws, the Member Representatives Committee may adopt such additional procedures, not inconsistent with these Bylaws, as it deems appropriate, subject to review and disapproval by the Board.

## **ARTICLE X. OTHER COMMITTEES AND SUBCOMMITTEES**

**Section 1. Committees of the Corporation.** In addition to those committees specified by these Bylaws, to which the Board shall appoint members in accordance with the requirements of these Bylaws, the Board may by resolution create standing committees of the Corporation; and may in addition by resolution appoint the members of such committees, subcommittees, task forces and Sector-specific forums as the Board deems necessary or desirable to carry out the purposes of the Corporation. The Board shall appoint members to such standing committees and other committees of the Corporation that are representative of Members, other interested parties, and the public, that provide for balanced decision-making and that include persons with sufficient technical knowledge and experience. All committees, subcommittees, task forces and Sector-specific forums shall have such scope and duties, not inconsistent with law, as are specified in these Bylaws and the Rules of Procedure of the Corporation or otherwise determined by the Board.

## **ARTICLE XI. BUDGETS AND FUNDING**

**Section 1. Compensation of the Board and Member Representatives Committee.** The Board shall have the right to fix from time to time, by resolution adopted by a majority of the Directors including a majority of the Independent Directors then serving as Directors, the amount of the annual retainer fee or other compensation to be paid to the Independent Directors for their services to the Corporation, including any fees to be paid for each meeting of the Board or any Board committee attended by an Independent Director. The Board will evaluate the fee or other compensation at least every three years, to ensure that Director compensation is appropriate. No compensation shall be paid to any Management Director, Affiliated Director, or *ex officio* Director for his or her services on the Board, other than the compensation paid to the Management Director for services as CEO of the Corporation. No compensation shall be paid by the Corporation to any member of the Member Representatives

Committee for his or her services on the Member Representatives Committee. Independent Directors shall be entitled to be reimbursed their reasonable out-of-pocket expenditures for attending meetings and conducting the business of the Corporation.

**Section 2. Preparation and Adoption of Annual Budget, Business Plan, and Funding Mechanism.** The Board shall require the CEO to prepare for Board approval an annual business plan and budget for the administrative and other expenses of the Corporation, including the expenditures for the fiscal year for any material special projects undertaken by the Corporation and reasonable and proper reserves and provisions for contingencies, in accordance with all NERC and Commission requirements. The annual business plan, budget and funding mechanism of the Corporation shall be for a fiscal year commencing on January 1 and ending on December 31. Each annual business plan, budget, and funding mechanism shall be approved by the Board at a regular meeting or a special meeting of the Board duly called for that purpose. The Board shall approve each annual business plan, budget, and funding mechanism at a time that allows for timely submittal of the approved annual business plan, budget, and funding mechanism to the applicable regulatory authorities.

**Section 3. Comments During Preparation of Annual Business Plan and Budget.** In preparing the annual business plan and budget, the Board shall require that the CEO post a draft business plan and budget for review and comment by the Members of the Corporation, the Member Representatives Committee, and the standing committees of the Corporation for at least ten (10) days prior to the date of the meeting of the Board at which the annual business plan and budget is to be adopted.

**Section 4. Modified or Supplemental Budgets.** During the course of a fiscal year, the Board may modify any approved budget or develop and approve a supplemental budget if determined by the Board to be necessary due to such factors as a shortfall in revenues of the Corporation from projected levels, incurred or anticipated expenditures, duties, or new projects not provided for in the annual budget, or such other factors as in the judgment of the Board warrant modification of the budget for the fiscal year or development of a supplemental budget. In preparing a modified or supplemental budget, the Board shall follow the provisions of this Article XI, Section 4 to the extent practicable in the judgment of the Board in light of the urgency of the circumstances necessitating preparation and approval of the modified or supplemental budget. Each modified or supplemental budget shall be approved by the Board at a regular meeting or a special meeting of the Board duly called for that purpose.

**Section 5. Submission of Annual Business Plans and Budgets to the Regulatory Authorities.** Each annual budget, annual business plan, and annual, modified, or supplemental budget approved by the Board shall be submitted by the Corporation to the ERO and any applicable regulatory authorities for approval in accordance with its regulations, and shall not be effective until approved by the applicable regulatory authorities. If ordered to modify or remand an annual budget, business plan, or annual, modified, or supplemental funding mechanism, the Board shall promptly following such order adopt such modifications to the business plan, budget, or funding mechanism as are required or directed by the order of the ERO and any applicable regulatory authority.

## **ARTICLE XII. AMENDMENTS TO THE BYLAWS**

**Section 1. Amendments to the Bylaws.** These Bylaws may be altered, amended, or repealed by action of the Membership, as set forth below. Any alteration,



amendment, repeal or adoption of Bylaws shall be subject to any applicable requirements for filing with or approval by the ERO or any other applicable regulatory authority. These Bylaws may be altered, amended, or repealed as follows:

(a) Any Director or Member suggesting amendments to these Bylaws must submit a proposal of the amendment, including any necessary supporting documents, to the CEO.

(b) The CEO shall place the proposal on the agenda for a Board meeting in the time and manner prescribed by the Board and within 95 days of the request.

(c) If the proposal is approved by an act of the Board as set forth in Article VI, Section 3, the Board shall place the proposal on the agenda of the next Annual Meeting of the Corporate Members unless the Board in its discretion calls a Special Meeting of the Corporate Members to vote on the proposal or determines to seek Membership approval without a meeting as provided in Article V, Section 4.

(d) If the proposal is not approved by the Board, the Members of the Corporation may call a meeting, pursuant to Article V, Section 1(b), for the purpose of voting on a proposal not approved by the Board. Any such proposal must be approved by a vote of five of the six Sectors at a meeting of Members called for that purpose or by written consent of five of the Sectors, where the number of votes for and against the proposed alteration, amendment, repeal or adoption of Bylaws shall be determined in accordance with Article V, Section 2.

### **ARTICLE XIII. INDEMNIFICATION; PROCEDURE; DISSOLUTION**

**Section 1. Indemnification.** The Corporation shall indemnify each person who at any time shall serve, or shall have served, as an officer, Director, employee, or other corporate agent of the Corporation, is or was serving at its request as a director, officer, partner, venturer, proprietor, employee, agent or similar functionary of another foreign or domestic corporation, partnership, joint venture, sole proprietorship, trust, employee benefit plan or other enterprise ("Indemnified Parties"), to the full extent from time to time permitted by the Texas Business Organizations Code and other applicable law. Such right of indemnification shall inure to the benefit of the legal representative of any such Indemnified Party. The foregoing indemnification shall be in addition to, and not in restriction or limitation of, any privilege or power that the Corporation may have with respect to the indemnification or reimbursement of its Indemnified Parties. The Corporation shall also pay or advance reasonable expenses incurred by an Indemnified Party in connection with a proceeding in advance of the final disposition of the proceeding upon receipt of a written affirmation by the Indemnified Party of a good faith belief that the standard of conduct necessary for indemnification under this Article XIII and the Texas Business Organizations Code has been met and a written undertaking by or on behalf of the officer, Director, or other corporate agent to repay the amount if it shall be ultimately determined that the Indemnified Party was not entitled to be indemnified by the Corporation.

**Section 2. Parliamentary Rules.** In the absence of and to the extent not inconsistent with specific provisions in these Bylaws, meetings or other actions pursuant to these Bylaws shall be governed by procedures that the Board may, from time to time, establish by resolution.

**Section 3. Dissolution.** Upon dissolution of the Corporation, in accordance with the Certificate of Formation, the remaining assets of the Corporation after payment of debts

shall be distributed in the manner determined by the Board, provided that, (i) no part of the assets shall be distributed to any Director of the Corporation, and (ii) the distribution of assets shall be consistent with the requirements of Section 501(c)(3) of the United States Internal Revenue Code of 1954.

#### **ARTICLE XIV. CONFLICTS OF INTEREST**

##### **Section 1. Conflicts of Interest.**

(a) Each Director shall have an affirmative duty to disclose to the Board or committee (as the case may be) any actual or potential conflicts of interest of the Director that arise during his or her tenure as a Director where, and to the extent that, such conflicts or potential conflicts directly or indirectly affect any matter that comes before the Board. A Director with a direct or potentially conflicting interest in a matter shall recuse himself from deliberations and actions on the matter in which the conflict arises and shall abstain on any vote on the matter and not otherwise participate in a decision on the matter. Any disclosure of a potential conflict of interest by a Director shall be noted in the minutes of the Board meeting at which the direct interest is disclosed. Mere attendance at the meeting, without participating in discussion of the issue raising the potential conflict, shall not constitute participation.

(b) The Corporation may not make any loan to a Director, committee member or officer of the Corporation. A Member, Director, officer, or committee member of the Corporation may not lend money to, or otherwise transact business with, the Corporation except as otherwise provided by these Bylaws, the Certificate of Formation, and applicable law. A related party transacting business with the Corporation has the same rights and obligations relating to those matters as other persons transacting business with the Corporation, provided the related party nature of the transaction is known to the Board. The Corporation may not borrow money from, or otherwise transact business with, a Member, Director, officer, or committee member of the Corporation unless the transaction is described fully in a legally binding instrument, is in the Corporation's best interests, and is on terms no less favorable to the Corporation than could be obtained in an arms-length transaction. The Corporation may not borrow money from, or otherwise transact business with, a Member, Director, officer, or committee member of the Corporation without full disclosure of all relevant facts and without the Board's approval, not including the vote of any person having a personal interest in the transaction.

**Section 2. Prohibited Acts.** No Member, Director, officer, or committee member of the Corporation may do any of the below-listed prohibited acts. Engaging in these prohibited acts may lead to sanction, suspension, expulsion or termination after a hearing as described in these Bylaws. The prohibited acts include the following:

- (a) Do any act in violation of these Bylaws.
- (b) Do any act in violation of a binding obligation of the Corporation except with the Board's prior approval.
- (c) Do any act with the intention of harming the Corporation or any of its operations.
- (d) Receive an improper personal benefit from the operation of the Corporation.

(e) Use the Corporation's assets, directly or indirectly, for any purpose other than carrying on the Corporation's business.

(f) Wrongfully transfer or dispose of Corporation property, including intangible property such as goodwill.

(g) Use the Corporation's name (or any substantially similar name) or any trademark or trade name adopted by the Corporation, except on behalf of Corporation in the ordinary course of its business or as a reference to the Corporation or its region.

(h) Disclose any of Corporation's or Members' business practices, trade secrets, or any other confidential or proprietary information not generally known to the business community to any person not authorized to receive it.

**Section 3. Loans and Guarantees.** Neither participation in the activities of the Corporation nor any provision of these Bylaws or of the Certificate of Formation shall be deemed to constitute a pledge or loan of the credit of any Member for the benefit of the Corporation or a guarantee by any Member of any obligation of the Corporation.

## **ARTICLE XV. BOOKS AND RECORDS; AUDIT; FISCAL YEAR**

**Section 1. Access to Books and Records.** All Members of the Corporation will have access to the books and records of the Corporation, including financial statements and budgets; however, the Board shall establish procedures by which a Member, upon written demand stating the purpose of the demand may examine and copy the books and records of the Corporation. If necessary to protect the confidential information of the Corporation, a Member requesting examination of any of the Corporation's non-public books and records will be required to sign a confidentiality and non-disclosure agreement before viewing such information. The procedures shall include policies that provide reasonable protection against the unnecessary disclosure of information related to individual employees, including their compensation.

**Section 2. Audit.** At least annually, an audit of the financial statements of the Corporation shall be performed by the Auditor approved by the Board. The Auditor's opinion and the audited financial statements will be made available to all Members as described in Article XV, Section 1.

**Section 3. Fiscal Year.** The fiscal year of the Corporation shall be from January 1 through the following December 31, unless otherwise established by resolution of the Board.

## **Exhibit C – Regional Standard Development Procedure**

Exhibit C shall set forth the Regional Entity's standards development procedure, which NERC agrees meets the following common attributes:

### **COMMON ATTRIBUTE 1**

Proposed regional reliability standards shall be subject to approval by NERC, as the electric reliability organization, and by FERC before becoming mandatory and enforceable under Section 215 of the FPA. No regional reliability standard shall be effective within the Texas Reliability Entity, Inc. ("Texas RE") area unless filed by NERC with FERC and approved by FERC.

### **COMMON ATTRIBUTE 2**

Texas RE regional reliability standards shall provide for as much uniformity as possible with reliability standards across the interconnected bulk power system of the North American continent. A Texas RE reliability standard shall be more stringent than a continent-wide reliability standard, including a regional difference that addresses matters that the continent-wide reliability standard does not, or shall be a regional difference necessitated by a physical difference in the bulk power system. A regional reliability standard that satisfies the statutory and regulatory criteria for approval of proposed North American reliability standards, and that is more stringent than a continent-wide reliability standard, would generally be acceptable.

### **COMMON ATTRIBUTE 3**

Texas RE regional reliability standards, when approved by FERC, shall be made part of the body of NERC reliability standards and shall be enforced upon all applicable bulk power system owners, operators, and users within the Texas RE area, regardless of membership in the region.

### **COMMON ATTRIBUTE 4**

**Requester** — The requester is the sponsor of the regional reliability standard request may assist in the development of the standard. Any member of Texas RE, or group within Texas RE shall be allowed to request that a regional reliability standard be developed, modified, or withdrawn. Additionally, any entity (person, organization, company, government agency, individual, etc.) that is directly and materially affected by the reliability of the bulk power system in the Texas RE area shall be allowed to request a regional reliability standard be developed, modified, or withdrawn.

### **COMMON ATTRIBUTE 5**

**Standards committee** — The Texas RE reliability standards committee (RSC) manages the standards development process. The RSC will consider which requests for new or revised standards shall be assigned for development (or existing standards considered for deletion). The RSC will advise the Texas RE board on standards presented for adoption.

### **COMMON ATTRIBUTE 6**

**Registered ballot body** — The registered ballot body comprises all entities or individuals that a) qualify for one of the stakeholder segments; are registered with Texas RE as potential ballot participants in the voting on standards; and are current with any designated fees. Each member of the registered ballot body is eligible to vote on standards. Each standard action has its own ballot pool formed of interested members of the registered ballot body. Each ballot pool comprises those members of the registered ballot body that respond to a pre-ballot survey for that particular standard action indicating their desire to participate in such a ballot pool. The representation model of the registered ballot body is provided in Appendix A.

### **COMMON ATTRIBUTE 7**

Texas RE will coordinate with NERC such that the acknowledgement of receipt of a standard request identified in step 1, notice of comment posting period identified in step 4, and notice for vote identified in step 5 below are concurrently posted on both the Texas RE and NERC websites.

### **COMMON ATTRIBUTE 8**

An acceptable standard request shall contain a description of the proposed regional reliability standard subject matter containing sufficiently descriptive detail to clearly define the purpose, scope, impacted parties, and other relevant information of the proposed standard.

### **COMMON ATTRIBUTE 9**

Within no greater than 60 days of receipt of a completed standard request, the RSC shall determine the disposition of the standard request.

## **COMMON ATTRIBUTE 10**

The RSC may take one of the following actions:

- Accept the standard request as a candidate for development of a new standard, revision of an existing standard, or deletion of an existing standard. The RSC may, at its discretion, expand or narrow the scope of the standard request under consideration. The RSC shall prioritize the development of standard in relation to other proposed standards, as may be required based on the volume of requests and resources.
- Reject the standard request. If the RSC rejects a standard request, a written explanation for rejection will be delivered to the requester within no greater than 30 days of the decision.
- Remand the standard request back to the requester for additional work. The standards process manager will make reasonable efforts to assist the requester in addressing the deficiencies identified by the RSC. The requester may then resubmit the modified standard request using the process above. The requester may choose to withdraw the standard request from further consideration prior to acceptance by the RSC.

## **COMMON ATTRIBUTE 11**

Any standard request that is accepted by the RSC for development of a standard (or modification or deletion of an existing standard) shall be posted for public viewing on the Texas RE website within no greater than 30 days of acceptance by the RSC.

## **COMMON ATTRIBUTE 12**

The standards process manager shall submit the proposed members of the drafting team to the RSC. The RSC shall approve the drafting team membership within 60 days of accepting a standard request for development, modifying the recommendations of the standards process manager as the committee deems appropriate, and assign development of the proposed standard to the drafting team.

## **COMMON ATTRIBUTE 13**

At the direction from the RSC, the standards process manager shall facilitate the posting of the draft standard on the Texas RE website, along with a draft implementation plan and supporting documents, for a no less than a 30-day comment period. The standards process manager shall provide notice to Texas RE stakeholders and other potentially interested entities, both within and outside of the Texas RE area, of the posting using communication procedures then currently in effect or by other means as deemed appropriate.

#### **COMMON ATTRIBUTE 14**

The drafting team shall prepare a summary of the comments received and the changes made to the proposed standard as a result of these comments. The drafting team shall summarize comments that were rejected by the drafting team and the reason(s) that these comments were rejected, in part or whole. The summary, along with a response to each comment received will be posted on the Texas RE website no later than the next posting of the proposed standard.

#### **COMMON ATTRIBUTE 15**

Upon recommendation of the drafting team, and if the RSC concurs that all of the requirements for development of the standard have been met, the standards process manager shall post the proposed standard and implementation plan for ballot and shall announce the vote to approve the standard, including when the vote will be conducted and the method for voting. Once the notice for a vote has been issued, no substantive modifications may be made to the proposed standard unless the revisions are posted and a new notice of the vote is issued.

#### **COMMON ATTRIBUTE 16**

The standards process manager shall schedule a vote by the Texas RE registered ballot body. The vote shall commence no sooner than 15 days and no later than 30 days following the issuance of the notice for the vote.

#### **COMMON ATTRIBUTE 17**

The Texas RE registered ballot body shall be able to vote on the proposed standard during a period of not less than 10 days.

#### **COMMON ATTRIBUTE 18**

Each standard action requires formation of a ballot pool of interested members of the registered ballot body.

#### **COMMON ATTRIBUTE 19**

Approval of the proposed regional reliability standard shall require a two thirds majority in the affirmative (affirmative votes divided by the sum of affirmative and negative votes). Abstentions and non-responses shall not count toward the results, except that abstentions may be used in the determination of a quorum. A quorum shall mean at least one representative from four (4) of the six (6) Sectors of the members of the registered ballot body submitted a ballot.

## **COMMON ATTRIBUTE 20**

Under no circumstances may the board substantively modify the proposed regional reliability standard.

## **COMMON ATTRIBUTE 21**

Once a regional reliability standard is approved by the board, the standard will be submitted to NERC for approval and filing with FERC.

## **COMMON ATTRIBUTE 22**

- **Open** - Participation in the development of a regional reliability standard shall be open to all organizations that are directly and materially affected by the Texas RE bulk power system reliability. There shall be no undue financial barriers to participation. Participation shall not be conditioned upon membership in Texas RE, and shall not be unreasonably restricted on the basis of technical qualifications or other such requirements. Meetings of drafting teams shall be open to the Texas RE members and others.

## **COMMON ATTRIBUTE 23**

- **Balanced** - The Texas RE standards development process strives to have an appropriate balance of interests and shall not be dominated by any two interest categories and no single interest category shall be able to defeat a matter.

## **COMMON ATTRIBUTE 24**

- **Inclusive** — Any entity (person, organization, company, government agency, individual, etc.) with a direct and material interest in the bulk power system in the Texas RE area shall have a right to participate by: a) expressing a position and its basis, b) having that position considered, and c) having the right to appeal.

## **COMMON ATTRIBUTE 25**

- **Fair due process** — The regional reliability standards development procedure shall provide for reasonable notice and opportunity for public comment. At a minimum, the procedure shall include public notice of the intent to develop a standard, a public comment period on the proposed standard, due consideration of those public comments, and a ballot of interested stakeholders.



### **COMMON ATTRIBUTE 26**

- **Transparent** — All actions material to the development of regional reliability standards shall be transparent. All standards development meetings shall be open and publicly noticed on the regional entity's Web site.

### **COMMON ATTRIBUTE 27**

- Does not unnecessarily delay development of the proposed reliability standard.

### **COMMON ATTRIBUTE 28**

Each standard shall enable or support one or more of the reliability principles, thereby ensuring that each standard serves a purpose in support of the reliability of the regional bulk power system. Each standard shall also be consistent with all of the reliability principles, thereby ensuring that no standard undermines reliability through an unintended consequence.

### **COMMON ATTRIBUTE 29**

While reliability standards are intended to promote reliability, they must at the same time accommodate competitive electricity markets. Reliability is a necessity for electricity markets, and robust electricity markets can support reliability. Recognizing that bulk power system reliability and electricity markets are inseparable and mutually interdependent, all regional reliability standards shall be consistent with NERC's market interface principles. Consideration of the market interface principles is intended to ensure that standards are written such that they achieve their reliability objective without causing undue restrictions or adverse impacts on competitive electricity markets.

### **COMMON ATTRIBUTE 30**

To ensure uniformity of regional reliability standards, a regional reliability standard shall consist of the elements identified in this section of the procedure. These elements are intended to apply a systematic discipline in the development and revision of standards. This discipline is necessary to achieving standards that are measurable, enforceable, and consistent.

### **COMMON ATTRIBUTE 31**

All mandatory requirements of a regional reliability standard shall be within the standard. Supporting documents to aid in the implementation of a standard may be referenced by the standard but are not part of the standard itself.

### **COMMON ATTRIBUTE 32**

<b>Applicability</b>	<p>Clear identification of the functional classes of entities responsible for complying with the standard, noting any specific additions or exceptions.</p> <p>If not applicable to the entire Texas RE area, then a clear identification of the portion of the bulk power system to which the standard applies. Any limitation on the applicability of the standard based on electric facility requirements should be described.</p>
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### **COMMON ATTRIBUTE 33**

<b>Measure(s)</b>	<p>Each requirement shall be addressed by one or more measures. Measures are used to assess performance and outcomes for the purpose of determining compliance with the requirements stated above. Each measure will identify to whom the measure applies and the expected level of performance or outcomes required demonstrating compliance. Each measure shall be tangible, practical, and as objective as is practical. It is important to realize that measures are proxies to assess required performance or outcomes. Achieving the measure should be a necessary and sufficient indicator that the requirement was met. Each measure shall clearly refer to the requirement(s) to which it applies.</p>
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### **COMMON ATTRIBUTE 34**

<b>Compliance Monitoring Process</b>	<p>Defines for each measure:</p> <ul style="list-style-type: none"><li>• The specific data or information that is required to measure performance or outcomes.</li><li>• The entity that is responsible for providing the data or information for measuring performance or outcomes.</li><li>• The process that will be used to evaluate data or information for the purpose of assessing performance or outcomes.</li><li>• The entity that is responsible for evaluating data or information to assess performance or outcomes.</li><li>• The time period in which performance or outcomes is measured, evaluated, and then reset.</li><li>• Measurement data retention requirements and assignment of responsibility for data archiving.</li></ul>
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**Texas Reliability Entity  
Standards Development Process**

**Appendix to Exhibit C to the  
Delegation Agreement  
Between NERC and Texas Reliability Entity**

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## I. Introduction

This document defines the fair and open process for adoption, approval, revision, and reaffirmation, of a Regional Reliability Standard (Regional Standard) for the ERCOT Region by Texas Reliability Entity, Inc. (Texas RE). Regional Standards provide for the reliable regional and sub-regional planning and operation of the Bulk-Power System (BPS), consistent with Good Utility Practice within a Regional Entity's (RE's) geographical footprint.

The process for obtaining a Texas RE Regional Variance to a NERC Reliability Standard shall be the same as the process for obtaining a Regional Standard. Throughout this document, where the term Regional Standard is used, the same process will be applied to a Regional Variance.

Due process is the key to ensuring that Regional Standards are developed in an environment that is equitable, accessible and responsive to the requirements of all interested and affected parties. An open and fair process ensures that all interested and affected parties have an opportunity to participate in a Regional Standard's development.

Any entity (person, organization, company, government agency, individual, etc.) with a direct and material interest in the BPS has a right to participate by: a) expressing a position and its basis, b) having that position considered, and c) having the right to appeal.

Proposed Regional Standards shall be subject to approval by North American Electric Reliability Corporation (NERC), as the electric reliability organization, and by the Federal Energy Regulatory Commission (FERC) before becoming mandatory and enforceable under Section 215 of the FPA. No Regional Standard shall be effective within the Texas RE area unless filed by NERC with FERC and approved by FERC.

Regional Standards shall provide for as much uniformity as possible with reliability standards across the interconnected BPS of the North American continent. A Regional Standard shall be more stringent than a continent-wide reliability standard, including a regional difference that addresses matters that the continent-wide reliability standard does not, or shall be a regional difference necessitated by a physical difference in the BPS. A Regional Standard that satisfies the statutory and regulatory criteria for approval of proposed North American reliability standards, and that is more stringent than a continent-wide reliability standard, would generally be acceptable.

Regional Standards, when approved by FERC, shall be made part of the body of NERC reliability standards and shall be enforced upon all applicable BPS owners, operators, and users within the Texas RE area, regardless of membership in the region.

## II. Background

The Texas RE may develop, through its own processes, separate Regional Standards that go beyond, add detail to, or implement NERC Reliability Standards; obtain a Regional Variance; or otherwise address issues that are not addressed in NERC Reliability Standards.

NERC Reliability Standards and Regional Standards are all to be included within the Texas RE's Compliance Program.

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Regional Standards are developed consistent with the following philosophies according to the process defined within this document:

- Developed in a fair and open process that provides an opportunity for all interested parties to participate;
- Does not have an adverse impact on commerce that is not necessary for reliability;
- Provides a level of BPS reliability that is adequate to protect public health, safety, welfare, and national security and does not have a significant adverse impact on reliability; and
- Based on a justifiable difference between regions or between sub-regions within the Regional geographic area.

The NERC Board of Trustees has adopted reliability principles and market interface principles to define the purpose, scope, and nature of reliability standards. As these principles are fundamental to reliability and the market interface, these principles provide a constant beacon to guide the development of reliability standards. The NERC Board of Trustees may modify these principles from time to time, as necessary, to adapt its vision for reliability standards. Persons and committees that are responsible for the Texas RE Standards Process shall consider these NERC Principles in the execution of those duties.

NERC Reliability Standards are based on certain reliability principles that define the foundation of reliability for the North American BPS. Each Regional Standard shall enable or support one or more of the reliability principles, thereby ensuring that each Regional Standard serves a purpose in support of reliability of the North American BPS. Each Regional Standard shall also be consistent with all of the reliability principles, thereby ensuring that no Regional Standard undermines reliability through an unintended consequence.

While NERC Reliability Standards are intended to promote reliability, they must at the same time accommodate competitive electricity markets. Reliability is a necessity for electricity markets, and robust electricity markets can support reliability. Recognizing that BPS reliability and electricity markets are inseparable and mutually interdependent, all Regional Standards shall be consistent with the market interface principles. Consideration of the market interface principles is intended to ensure that Regional Standards are written such that they achieve their reliability objective without causing undue restrictions or adverse impacts on competitive electricity markets.

### **III. Regional Standards Definition**

A NERC Reliability Standard defines certain obligations or requirements of entities that operate, plan, and use the BPS of North America. The obligations or requirements must be material to reliability and measurable. Each obligation and requirement shall support one or more of the stated reliability principles and shall be consistent with all of the stated reliability and market interface principles.

Texas RE may develop, through its own processes: (1) Regional Standards that go beyond, add detail to, or implement NERC Reliability Standards or that cover matters not addressed in NERC Reliability Standards, and (2) Regional Variances that allow an alternative approach to meeting the same reliability objective as the NERC Reliability Standard and are typically necessitated by physical differences.

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#### IV. Roles in the Texas RE Regional Standards Development Process

**Originator** – Any person, acting as a representative of an organization that is directly and materially affected by the operation of the ERCOT region BPS is allowed to request that a Regional Standard be developed or an existing Regional Standard modified, or deleted, by creating a Regional Standards Authorization Request (SAR) as described in Appendix B to this document.

**Texas RE Board of Directors (Texas RE BOD)** – The Texas RE BOD shall act on any proposed Regional Standard that has gone through the process. Once the Regional Standard is approved by FERC, compliance with the Regional Standard will be enforced consistent with the terms of the Regional Standard.

**Registered Ballot Body (RBB)** – The Registered Ballot Body is comprised of all entities or individuals (whether or not they are Texas RE corporate members) that are ERCOT region BPS owners, operators, and users and qualify for one of the below-listed Texas RE Standards Development Sectors, and are registered with the Texas RE as potential ballot participants.

**Registered Ballot Pool (RBP)** – Each Regional Standard has its own ballot pool formed of interested members of the Registered Ballot Body. Through the voting process, the RBP will ensure that the need for and technical merits of a proposed Regional Standard are appropriately considered. The RBP will also ensure that appropriate consideration of views and objections are received during the development process.

**Reliability Standards Committee (RSC)** – A balanced committee comprised of entities representing the six Texas RE Standard Development Sectors. The RSC will consist of two representatives from each Sector (except that Sectors with only one member may only have one representative), as elected by the Sector, and the RSC requires a quorum of at least one representative from at least two-thirds (2/3) of the Sectors to take action. The RSC in coordination with the Reliability Standards Manager will review, participate in, and manage the Texas RE Regional Standards Development Process, and develop Texas RE Regional Standards on a schedule as directed by NERC and as needed per the reliability related needs of the ERCOT Region. Where necessary or appropriate, the RSC will coordinate the development of Texas RE Regional Standards and Regional Variances with the development of national standards appearing in the NERC work plan, and the RSC will coordinate and submit comments as a group, to the extent feasible. The RSC will also review FERC Orders pertaining to standards and standards development activities to ensure directives are addressed in regional standard development.

**Reliability Standards Manager (RSM)** – A Texas RE employee assigned the task of ensuring that the development, revision or deletion of Regional Standards is in accordance with this document. The RSM works with the RSC to ensure the integrity of the process and consistency of quality and completeness of the Regional Standards. The RSM manages the Regional Standards Development Process, and coordinates and facilitates all actions contained in all steps in the process including the management of the Standard Drafting Teams and the facilitation of RSC meetings.

**Reliability Standards Staff** – Employees of the Texas RE that work with or for the Reliability Standards Manager.

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**Standard Drafting Team (SDT)** – A team of technical experts, assigned by the RSC, and typically includes a Texas RE employee and the Originator, assigned the task of developing a proposed Regional Standard based upon an approved SAR using the Regional Standard Development Process contained in this document.

**Texas RE Standards Development Sectors (Sectors)** – The six (6) Texas RE Standards Development Sectors are defined as follows:

- **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:** An entity that is registered with NERC as a Transmission Owner (TO), Transmission Planner (TP), Transmission Service Provider (TSP), and/or Transmission Operator (TOP).
- **Cooperative or 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.
- **Municipal Utility:** A municipally owned utility as defined in PURA §11.003 and is registered with NERC for at least one registered 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 Function for demand response, and any entity with a direct and material interest in the ERCOT region BPS that is not eligible for membership in any other Sector.

## V. Texas RE Regional Standards Development Process

### A. Assumptions and Prerequisites

The process for developing and approving Standards is generally based on the procedures of the American National Standards Institute (ANSI) and other standards-setting organizations in the United States and Canada. The Regional Standards development process has the following characteristics:

- **Due process** – Any person representing an organization with a direct and material interest has a right to participate by:
  - a) Expressing an opinion and its basis,
  - b) Having that position considered, and
  - c) Appealing any negative decision
- **Openness** – Participation is open to all organizations that are directly and materially affected by ERCOT region's BPS reliability. There shall be no undue financial barriers to participation. Participation shall not be conditioned upon membership in Texas RE, and shall not be unreasonably restricted on the basis of technical qualifications or other such



requirements. Meetings of SDTs are open to all interested parties. All proposed SARs and Regional Standards are posted for comment on the Texas RE Website.

- **Balance** – The Texas RE Standards Development Process strives to have an appropriate balance of interests and shall not be dominated by any single interest category.

## **B. Regional Standards Development Process Steps**

**Note:** The term “days” below refers to calendar days.

Texas RE will coordinate with NERC such that the acknowledgement of receipt of a Regional Standard request identified in Step 1, notice of comment posting period identified in Step 4, and notice for vote identified in Step 5 below are concurrently posted on both the Texas RE and NERC websites.

### ***Step 1 – Development of a Standards Authorization Request (SAR) to Develop, Revise, or Delete a Regional Standard***

Any entity (Originator) that is directly or materially impacted by the operation of the BPS (including all users, owners, and operators of the BPS and regardless of whether the entity is a Texas RE member) within the geographical footprint of Texas RE may request, via a submittal of a Standard Authorization Request (SAR) form, the development, modification, or deletion of a Regional Standard or Regional Variance.

Any such request shall be submitted to the Texas RE RSM, or his or her designee in electronic format. The SAR form may be downloaded from the Texas RE Website.

An acceptable SAR contains a description of the proposed Regional Standard subject matter containing sufficiently descriptive detail to clearly define the purpose, scope, impacted parties, and other relevant information of the proposed Regional Standard.

The RSM will verify that the submitted SAR form has been adequately completed. The RSM may offer the Originator suggestions regarding changes and/or improvements to enhance clarity of the Originator’s intent and objectives. The Originator is free to accept or reject these suggestions. Within 15 days the RSM will electronically acknowledge receipt of the SAR.

The RSM will post all adequately completed SARs on the Texas RE Website for public viewing and comment. This initial SAR comment period shall be 15 days. After this initial comment period, the RSM will then forward the SAR to the RSC for its consideration at the next regularly scheduled meeting of the RSC. Within 60 days of receipt of an adequately completed SAR that has been through the initial 15-day comment period, the RSC shall determine the disposition of the SAR and, if the RSC deems necessary, direct the RSM to post the revised SAR again for review and comment for another 15-day period.

The disposition decision process shall use the normal “business rules and procedures” of the RSC then in effect. The RSC may vote to take one of the following actions:

- Accept the SAR as a candidate for development of a new Regional Standard, revision of an existing Regional Standard, or deletion of an existing Regional Standard. The RSC may, in its sole discretion, expand or narrow the scope of the SAR under consideration.

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The RSC shall prioritize the development of SARs as may be required based on the number of SARs under development at any time.

- Reject the SAR. If the RSC rejects a SAR, a written explanation for rejection will be delivered to the Originator within 30 days of the decision, and the Texas RE BOD will also be notified with such explanation. The Texas RE BOD may, at its discretion, direct the RSC to reconsider any SAR that has been rejected.
- Remand the SAR back to the Originator for additional work. The RSM will make reasonable efforts to assist the Originator in addressing the deficiencies identified by the RSC. The Originator may then resubmit the modified SAR using the process above. The Originator may choose to withdraw the SAR from further consideration prior to re-submittal to the RSC.

Any SAR that is accepted by the RSC for development of a Regional Standard (or modification or deletion of an existing Regional Standard) shall be posted for public viewing on the Texas RE Website, and their status will be updated as appropriate.

Any documentation of the deliberations of the RSC concerning SARs shall be made available according to normal “business rules and procedures” of the RSC then in effect.

Texas RE Staff shall submit a written report to the Texas RE BOD on a periodic basis (at least quarterly at regularly scheduled Texas RE BOD Meetings) showing the status of all SARs that have been brought to the RSC for consideration.

### ***Step 2 – Formation of the Standard Drafting Team and Declaration of Milestone Date***

Upon acceptance by the RSC of a SAR for development of a new Regional Standard (or modification or deletion of an existing Regional Standard), the RSC shall direct the RSM to assemble a qualified balanced slate for the SDT. The RSM will solicit drafting team nominees by announcing the opening of nominations to the stakeholders in the region. The SDT shall consist of a group of people who collectively have the necessary technical expertise and work process skills to draft the standard being requested in the SAR. The RSM shall recommend to the RSC a slate of ad-hoc individuals or a pre-existing task force, work group, or similar group for the SDT. The membership of the SDT shall not include more than one individual from any one entity.

The RSM will manage the SDT to ensure that the Texas RE Standards Development Process is followed, and that the team membership receives all necessary administrative support. This support typically includes a Texas RE staff member and the Originator if he/she chooses to participate. The RSM may develop additional guidelines to assist the SDT, but as a general rule, the RSM will follow the then-current NERC SDT Guidelines and associated NERC SDT procedures in the management of the regional SDTs. The RSC shall appoint the SDT interim chair (should not be a Texas RE staff person). The SDT will elect the permanent Chair and Vice-chair at its first meeting.

The RSM shall submit the proposed list of names of the SDT to the RSC. The RSC will either accept the recommendations of the RSM or modify the SDT slate, as it deems appropriate within 60 days of accepting a SAR for development.

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### **Step 3 – Work and Work Product of the Standard Drafting Team**

The RSM will collaborate with the SDT to develop a work plan including the establishment of milestones for completing critical elements. This plan shall be delivered and reported to the RSC, and based upon this work plan, the RSC shall declare a preliminary date on which a completed draft Regional Standard and associated supporting documentation will be available for comment.

The SDT is to meet, either in person or via electronic means (such as Web Ex) as necessary, establish sub-work teams or groups (made up of members of the SDT) as necessary, and performs other activities to address the parameters of the SAR and the milestone date(s) established

The work product of the SDT will consist of the following:

- A draft Regional Standard consistent with the SAR on which it was based.
- An assessment of the impact of the SAR on neighboring regions, and appropriate input from the neighboring regions if the SAR is determined to impact any neighboring region.
- An implementation plan, including the nature, extent and duration of field-testing, if any.
- Identification of any existing Regional Standard (or other regional criteria, protocol, or rule) that may be deleted, in part or whole, or otherwise impacted by the implementation of the draft Regional Standard.
- Technical reports and/or work papers that provide technical support for the draft Regional Standard under consideration.
- The perceived reliability impact should the Regional Standard be approved.
- A draft of recommended Violation Risk Factors (VRFs) and Violation Severity Levels (VSLs), in coordination with Texas RE staff.

Upon completion of these tasks, the SDT shall submit these documents to the RSC, which will verify that the proposed Regional Standard is consistent with the SAR on which it was developed.

The SDT shall regularly (at least once each month) report to and inform the RSC of its progress in meeting the timely completion of the draft Regional Standard. The SDT may request of the RSC, at any point in the Regional Standard Development Process, a change in the scope of the SAR.

The RSC may, at any time, exercise its authority over the Regional Standards Development Process by directing the SDT to move to Step 4 (below) and post the current work product for comment. Any interested entity (including the Originator and the RSM) that contends that the SDT is not effectively progressing on a draft standard or variance may notify the RSC. If any entity contends that the RSC has not taken timely action regarding any requested standard, the entity may file a written complaint with the RSM, who will notify the RSC. If the RSC cannot resolve the complaint within sixty days, the complaining entity may request that its complaint be included on the RSM's report to the Texas RE BOD.

### **Step 4 – Comment Posting Period**

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At the direction from the RSC, the RSM shall post the draft Regional Standard, VRFs, and VSLs on the Texas RE Website, along with a draft implementation plan and supporting documents, for a 30-day public comment period. The posting of draft VRFs and VSLs for stakeholder comment can be deferred until a second or later posting of the draft standard as determined by the standard drafting team; however, it is recommended that the VRFs and VSLs be posted for comment with the entire draft Regional Standard as early in the standard development process as possible. The RSM shall also give notice of the posting to all potentially interested entities inside or outside of the ERCOT region of which Texas RE is aware. The RSM will give notice using the typical communication procedures in effect or other means as deemed appropriate.

Within 30 days of the conclusion of the 30-day comment posting period, the SDT shall convene and consider changes to the draft Regional Standard, the implementation plan, supporting technical documents, VRFs, and/or VSLs, based upon comments received. The SDT shall also prepare a formal written response to every comment received. The SDT may then elect to return to Step 3 to revise the draft Regional Standard, implementation plan, and/or supporting technical documentation. If the comments received indicate that the VRFs or VSLs should be changed to better conform to the criteria for establishing those elements, then the SDT, working with Texas RE staff, may make revisions.

The SDT shall prepare a “modification report” summarizing the comments received, the team’s responses to the comments, and the changes made to the draft standard as a result of these comments. The modification report shall also summarize comments that were rejected by the SDT and the reason(s) that these comments were rejected, in part or whole. The RSM shall post responses to all comments on the Texas RE Website no later than the next posting of the revised draft standard.

### ***Step 5 – Posting for Voting by the Registered Ballot Pool***

Upon recommendation of the SDT, and if the RSC concurs that all of the requirements for development of the standard have been met, the RSM shall post the proposed standard and implementation plan for ballot and the VRFs and VSLs for poll on the Texas RE Website. The RSM shall also announce the vote to approve the standard and the opportunity to provide input into the VRFs and VSLs, including when the vote will be conducted and the method for voting. Once the notice for a vote has been issued, no substantive modifications may be made to the proposed standard unless the revisions are posted and a new notice of the vote is issued.

The RSM will schedule a vote among the Registered Ballot Pool, which is to be scheduled to commence no sooner than 15 days and no later than 30 days following this posting.

The RSM shall send a notice to every entity in the Registered Ballot Body (RBB) to notify them of an opportunity to become a part of the Registered Ballot Pool for this Regional Standard or Regional Variance. Each member of the RBB will be allowed the opportunity to join a single ballot pool to participate in the determination of the approval of the Regional Standard and to provide input to the “non-binding poll” on the VRFs and VSLs associated with the Regional Standard. This notice should precede the start of the ballot by at least 30 days. The purpose of this notice is to establish a ballot pool to participate in the consensus development process and ballot the proposed action. All members of the Registered Ballot Body are eligible to participate in voting on proposed new Regional Standards, Regional Standard revisions, or Regional

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Standard deletions. There shall be one person designated as the primary RBB representative of each entity. Those members of the RBB that sign up for the Ballot Pool become that pool.

The Texas RE Registered Ballot Pool shall be able to vote on the proposed standard and participate in the non-binding poll on the VRFs and VSLs during a 15-day period. Votes shall be submitted electronically, or through other means as approved by the RSC.

Voting is an advisory to the Texas RE BOD. The voting results shall be composed of only the votes from the Registered Ballot Pool members who have responded within the 15-day voting period. Votes may be accompanied by comments explaining the vote, but are not required. All comments shall be responded to and posted to the Texas RE Website prior to going to the RSC or Texas RE BOD.

At least one (1) representative from four (4) of the six (6) Sectors must vote to constitute a quorum. Each Sector shall have two (2) Sector votes.

The “poll” taken on the violation risk factors and violation severity levels is “non-binding.” The results of this poll will be reported to the Texas RE BOD and considered by Texas RE staff in forming its recommendations. The results of the poll are one element for the Texas RE BOD to consider when making a determination of whether to approve the compliance elements of the standards. The results of the poll do not determine whether these compliance elements are “approved.” In addition, if stakeholder comments submitted with the non-binding poll indicate specific improvements that would improve consensus, then the SDT, working with Texas RE staff, will revise the VRFs and VSLs to reflect stakeholder comments before the VRFs and VSLs are submitted to the Texas RE BOD.

***Step 6A – Registered Ballot Pool Voting Receives 2/3 or Greater Affirmative Votes of the Texas RE Sectors***

If a draft Regional Standard receives 2/3 or greater affirmative votes during the 15-day voting period, the RSC will forward the Regional Standard to the Texas RE BOD for action (Step 7).

***Step 6B – Membership Voting Does Not Receive 2/3 Affirmative Votes of the Texas RE Sectors***

If a draft Regional Standard does not receive 2/3 or greater affirmative votes during the 15-day voting period, the RSC may:

- Revise the SAR on which the draft Regional Standard was based and remand the development work back to the original SDT or a newly appointed SDT. The resulting draft Regional Standard and/or implementation plan shall be posted for a second voting period. The RSC may require a second comment period prior to a second voting period. The second posting of the draft Regional Standard, implementation plan, and supporting documentation shall be within 60 days of the RSC action.
  - If a draft Regional Standard receives 2/3 or greater affirmative votes during the second voting period, the RSC will forward to the Texas RE BOD for action (Step 7).
  - If a draft Regional Standard does not receive 2/3 or greater affirmative votes during the second voting period, the RSC will refer the draft Regional Standard

and implementation plan to the Texas RE BOD. The RSC may also submit an assessment, opinion, and recommendations to the Texas RE BOD (Step 7).

- Direct the existing SDT to reconsider or modify certain aspects of the draft Regional Standard and/or implementation plan. The resulting draft Regional Standard and/or implementation plan shall be posted for a second voting period. The RSC may require a second comment period prior to the second voting period. The second posting of the draft Regional Standard, implementation plan, and supporting documentation shall be within 60 days of the RSC action.
  - If a draft Regional Standard receives 2/3 or greater affirmative votes on the second voting period, the RSC will forward it to the Texas RE BOD for action (Step 7).
  - If a draft Regional Standard does not receive 2/3 or greater affirmative votes on the second voting period, the RSC will refer the draft Regional Standard and implementation plan to the Texas RE BOD. The RSC may also submit an assessment, opinion, and recommendations to the Texas RE BOD (Step 7).

### ***Step 7 – Action by the Texas RE Board of Directors***

A proposed Regional Standard and VRFs and VSLs submitted to the Texas RE BOD for action shall be publicly posted at least 10 days prior to action by the Texas RE BOD. At a regular or special meeting, the Texas RE BOD shall consider adoption of the draft Regional Standard and shall approve the associated VRFs and VSLs for any approved Regional Standard. The Texas RE BOD shall be provided with an “informational package” which includes:

- The draft Regional Standard and any modification or deletion of other related existing Regional Standard(s)
- Implementation Plan (including recommending field testing and effective dates)
- Technical Documentation supporting the draft Regional Standard
- The VRFs and VSLs recommended by Texas RE staff
- A summary of the vote and summary of the comments and responses that accompanied the votes and the non-binding poll on the VRFs and VSLs.

The Texas RE BOD will consider the results of the voting and dissenting opinions. The Texas RE BOD will consider any advice offered by the RSC and may:

- Approve the proposed Regional Standard;
- Remand the proposed Regional Standard to the RSC with comments and instructions;  
or
- Disapprove the proposed Regional Standard without recourse.

Under no circumstances may the Texas RE BOD substantively modify the proposed Regional Standard.

Separately, the Texas RE BOD shall consider approval of the VRFs and VSLs for the Regional Standard. In making its determination, the BOD shall consider the following:

- The RSC shall present the results of the non-binding poll conducted and a summary of industry comments received on the final posting of the proposed VRFs and VSLs.
- Texas RE staff shall present a set of recommended VRFs and VSLs that considers the views of the standard drafting team, stakeholder comments received on the draft VRFs and VSLs during the posting for comment process, the non-binding poll results, appropriate governmental agency rules and directives, and VRF and VSL assignments for other Regional Standards to ensure consistency and relevance across the entire spectrum of Regional Standards.

Once a Regional Standard and the associated VRFs and VSLs are approved by the Texas RE BOD, the standard and its associated compliance elements will be submitted to NERC for approval and filing with FERC.

### ***Step 8 – Implementation of a Regional Standard***

Upon approval of a draft Regional Standard by the Texas RE BOD, the RSM will notify the membership of such action of the Texas RE BOD through the normal and customary membership communication procedures and processes then in effect. The RSM will take whatever steps are necessary to have a Regional Standard reviewed and/or approved by NERC or any successor organization.

#### ***C. Regional Standards Integration***

Once the Regional Standard is approved by FERC, the RSM shall notify the stakeholders of the effective date. The RSM will also notify the Texas RE Compliance Staff for integration into the Texas RE Compliance Monitoring and Enforcement Program.

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## **Appendix A – Stakeholder Representation**

The Texas RE stakeholder representation for Regional Standards development is as follows:

### **I. Reliability Standards Committee (RSC)**

The Reliability Standards Committee (RSC), comprised of two representatives (except for Sectors with only one member, which will have only one representative) from each of the six Texas RE Standards Development Sectors (System Coordination and Planning; Transmission; Generation; Cooperative Utility; Municipal Utility; Load-Serving and Marketing), is to provide balanced decision-making and due process for Regional Standards and Regional Variances. The RSC will receive, consider, and vote upon requests for new or revised Regional Standards and Regional Variances. The RSC requires a quorum of at least one representative from at least two-thirds of the Sectors.

The RSC will consider any requests for Regional Standards or Regional Variances from parties that are directly and materially affected by the operation of the ERCOT Region BPS that have first been submitted to the RSM for initial review.

### **II. Texas RE Board of Directors (BOD)**

Texas RE is a Texas non-profit corporation that is governed by a combination independent and balanced stakeholder board. The Texas RE Board of Directors (BOD) includes the following directors:

- Four independent directors who are independent of any ERCOT region market participant and any NERC registered entity and are nominated and elected in accordance with the requirements and procedures specified in the Texas RE Bylaws;
- Two directors from different Sectors who are selected by the Texas RE Member Representatives Committee as its chair and vice chair;
- CEO of Texas RE;
- Chairman of the Public Utility Commission of Texas (PUCT) or another PUCT Commissioner designated by the Chairman (as *ex officio* non-voting Director); and
- Texas Public Counsel from the Office of Public Utility Counsel (OPUC) or another employee of OPUC designated by Public Counsel (as *ex officio* non-voting Director).

### **III. Registered Ballot Body (RBB)**

A Registered Ballot Body (RBB) will be comprised of representatives from all the Sectors, to provide balanced decision-making on Regional Standards and Regional Variances. The RBB is eligible to vote on all proposed new or revised Regional Standards or Regional Variances. The RBB requires a quorum of at least one vote from at least two-thirds of the Sectors. At all meetings, each Sector shall have one (1) Sector vote, and each voting entity is entitled to only one vote. Each voting entity participating in the vote, shall receive an equal fraction of its Sector's vote. A Registered Ballot Pool (RBP) will be formed for each proposed Regional Standard or Regional Variance and will be a subset of the RBB. The RBP will vote on a particular standard action.



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## **Appendix B – Principles, Characteristics, and Special Procedures**

### **I. Principles**

Due process is the key to ensuring that regional reliability standards are developed in an environment that is equitable, accessible and responsive to the requirements of all interested and affected parties. An open and fair process ensures that all interested and affected parties have an opportunity to participate in the development of a standard.

The Texas RE develops Regional Standards with due consideration of the following principles, in accordance with the steps outlined in this procedure. The process must ensure that any Regional Standard is technically sound and the technical specifications proposed would achieve a valuable reliability objective.

The standards development process has the following characteristics:

- **Open** – Participation in the development of a Regional Standard shall be open to all organizations that are directly and materially affected by ERCOT BPS reliability. There shall be no undue financial barriers to participation. Participation shall not be conditioned upon membership in ERCOT, and shall not be unreasonably restricted on the basis of technical qualifications or other such requirements. Meetings of drafting teams shall be open to ERCOT members and others.
- **Balanced** – The Texas RE Standards Development Process strives to have an appropriate balance of interests and shall not be dominated by any two interest categories and no single interest category shall be able to defeat a matter.
- **Inclusive** – Any entity (person, organization, company, government agency, individual, etc.) with a direct and material interest in the ERCOT BPS in the Texas RE area shall have a right to participate by: a) expressing a position and its basis, b) having that position considered, and c) having the right to appeal.
- **Fair due process** – The Texas RE Standards Development Process shall provide for reasonable notice and opportunity for public comment. At a minimum, the procedure shall include public notice of the intent to develop a standard, a public comment period on the proposed standard, due consideration of those public comments, and a ballot of interested stakeholders.
- **Transparent** – All actions material to the development of regional reliability standards shall be transparent. All standards development meetings shall be open and publicly noticed on the Texas RE Website.
- Does not unnecessarily delay development of the proposed Regional Standard.

NERC has adopted reliability principles and market interface principles to define the purpose, scope, and nature of reliability standards. These principles are to be used to guide the development of reliability standards, including regional reliability standards. The NERC Board of Trustees may modify these principles from time to time, as necessary, to adapt its vision for reliability standards.

Each Regional Standard shall enable or support one or more of the reliability principles, thereby ensuring that each Regional Standard serves a purpose in support of the reliability of the ERCOT BPS. Each Regional Standard shall also be consistent with all of the reliability principles, thereby ensuring that no Regional Standard undermines reliability through an unintended consequence.

While reliability standards are intended to promote reliability, they must at the same time accommodate competitive electricity markets. Reliability is a necessity for electricity markets, and robust electricity markets can support reliability. Recognizing that BPS reliability and electricity markets are inseparable and mutually interdependent, all Regional Standards shall be consistent with NERC's market interface principles. Consideration of the market interface principles is intended to ensure that standards are written such that they achieve their reliability objective without causing undue restrictions or adverse impacts on competitive electricity markets.

## **II. Regional Standard Characteristics and Elements**

### **a. Characteristics of a Regional Standard**

The following characteristics describe objectives to be considered in the development of Regional Standards:

1. **Applicability** – Each Regional Standard clearly identifies the functional classes of entities responsible for complying with the standard, with any specific additions or exceptions noted. Such functional classes include: Reliability Coordinators, Balancing Authorities, Transmission Operators, Transmission Owners, Generator Operators, Generator Owners, Interchange Authorities, Transmission Service Providers, Planning Authorities, Transmission Planners, Resource Planners, Load-Serving Entities, Purchasing-Selling Entities, and Distribution Providers. Each Regional Standard identifies the geographic applicability of the standard. A standard may also identify any limitations on the applicability of the standard based on electric facility characteristics.
2. **Reliability Objectives** – Each Regional Standard has a clear statement of purpose that describes how the standard contributes to the reliability of the ERCOT BPS.
3. **Requirement or Outcome** – Each Regional Standard states one or more requirements, which if achieved by the applicable entities, will provide for a reliable BPS, consistent with good utility practices and the public interest.
4. **Measurability** – Each performance requirement is stated so as to be objectively measurable by a third party with knowledge or expertise in the area addressed by that requirement. Each performance requirement has one or more associated measures used to objectively evaluate compliance with the requirement. If performance can be practically measured quantitatively, metrics are provided to determine satisfactory performance.
5. **Technical Basis in Engineering and Operations** — Each Regional Standard is based upon sound engineering and operating judgment, analysis, or experience, as determined by expert practitioners in that particular field.

6. **Completeness** — Each Regional Standard is complete and self-contained. Supporting references may be provided with standards, but they are not part of the standard and do not impose mandatory requirements.
7. **Clear Language** — Each Regional Standard is stated using clear and unambiguous language. Responsible entities, using reasonable judgment and in keeping with good utility practice, are able to arrive at a consistent understanding of the required performance.
8. **Practicality** — Each Regional Standard establishes requirements that can be practically implemented by the assigned responsible entities within the specified effective date and thereafter.
9. **Consistent Terminology** — To the extent possible, Regional Standards use a set of standard terms and definitions that are approved through the regional standards development procedure.

Although Regional Standards have a common format and process, several types of standards may exist, each with a different approach to measurement:

- **Technical standards** are related to the provision, maintenance, operation, or state of electric systems, and will likely contain measures of physical parameters that are technical in nature.
- **Performance standards** are related to the actions of entities providing for or impacting the reliability of the BPS, and will likely contain measures of the results of such actions or qualities of performance of such actions.
- **Preparedness standards** are related to the actions of entities to be prepared for conditions that are unlikely to occur, but are nonetheless critical to reliability, and will likely contain measures of such preparations or the state of preparedness.

#### **b. Elements of a Regional Standard**

To ensure uniformity of regional reliability standards, a Regional Standard shall consist of the elements identified in this section of the procedure. These elements are intended to apply a systematic discipline in the development and revision of standards. This discipline is necessary to achieving standards that are measurable, enforceable, and consistent.

All mandatory requirements of a regional reliability standard shall be within the standard. Supporting documents to aid in the implementation of a standard may be referenced by the standard but are not part of the standard itself.

**Table 1 – Performance Elements of a Regional Standard**

<b>Identification Number</b>	A unique identification number assigned in accordance with an administrative classification system to facilitate tracking and reference.
<b>Title</b>	A brief, descriptive phrase identifying the topic of the standard.
<b>Applicability</b>	Clear identification of the functional classes of entities responsible for

	complying with the standard, noting any specific additions or exceptions. If not applicable to the entire Texas RE area, then a clear identification of the portion of the BPS to which the standard applies. Any limitation on the applicability of the standard based on electric facility requirements should be described.
<b>Effective Date and Status</b>	The effective date of the standard or, prior to approval of the standard, the proposed effective date.
<b>Purpose</b>	The purpose of the standard. The purpose shall explicitly state what outcome will be achieved or is expected by this standard.
<b>Requirement(s)</b>	Explicitly stated technical, performance, and preparedness requirements. Each requirement identifies what entity is responsible and what action is to be performed or what outcome is to be achieved. Each statement in the requirements section shall be a statement for which compliance is mandatory.
<b>Measure(s)</b>	Each requirement shall be addressed by one or more measures. Measures are used to assess performance and outcomes for the purpose of determining compliance with the requirements stated above. Each measure will identify to whom the measure applies and the expected level of performance or outcomes required demonstrating compliance. Each measure shall be tangible, practical, and as objective as is practical. It is important to realize that measures are proxies to assess required performance or outcomes. Achieving the measure should be a necessary and sufficient indicator that the requirement was met. Each measure shall clearly refer to the requirement(s) to which it applies.

**Table 2 – Compliance Elements of a Regional Standard**

The following compliance elements are developed for each standard by the standard drafting team and are balloted with the regional standard:

<b>Compliance Monitoring Process</b>	<p>Defines for each measure:</p> <ul style="list-style-type: none"> <li>• <b>Compliance Enforcement Authority:</b> The entity that is responsible for evaluating data or information to assess performance or outcomes.</li> <li>• <b>Compliance Monitoring and Enforcement Processes:</b> The processes that will be used to evaluate data or information for the purpose of assessing performance or outcomes.</li> <li>• <b>Data Retention:</b> Measurement data retention requirements and assignment of responsibility for data archiving.</li> <li>• <b>Additional Compliance Information:</b> Any other information related to assessing compliance such as the criteria or periodicity for filing specific reports.</li> </ul>
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The following compliance elements are developed by the SDT, working with Texas RE staff, but are not considered to be part of the standard. These elements will be posted for stakeholder comment concurrent with the associated requirements as early in the standard development process as possible. The standard drafting team, working with Texas RE staff will respond to all

comments received. The drafting team, working with Texas RE staff may make modifications to the Violation Risk Factors (VRFs) and Violation Severity Levels (VSLs) based on stakeholder comments.

A non-binding poll will be conducted to assess stakeholders’ agreement with VRFs and VSLs. If stakeholder comments submitted with the non-binding poll indicate specific improvements that would improve consensus, then the SDT, working with Texas RE staff, will revise the VRFs and VSLs to reflect stakeholder comments.

The RSC will report the results of the poll and a summary of industry comments received on the final posting of the proposed VRFs and VSLs to the Texas RE BOD. Texas RE staff will develop for BOD approval recommended assignments of VRFs and VSLs associated with Regional Standards being presented for approval by the BOD. In developing the recommended VRF and VSL assignments, Texas RE staff will take into consideration the views of the standard drafting team, stakeholder comments received on the draft VRFs and VSLs during the posting for comment process, the non-binding poll results, regulatory directives, and VRF and VSL assignments for other Regional Standards to ensure consistency and relevance across the entire spectrum of NERC Reliability Standards.

The Texas RE BOD has the authority to approve Violation Risk Factors and Violation Severity Levels and may modify the VRF or VSL proposed by Texas RE staff.

<p><b>Violation Risk Factors</b></p>	<p>The potential reliability significance of each requirement, designated as a High, Medium, or Lower Risk Factor in accordance with the criteria listed below:</p> <p>A High Risk Factor requirement (a) is one that, if violated, could directly cause or contribute to bulk power system instability, separation, or a cascading sequence of failures, or could place the bulk power system at an unacceptable risk of instability, separation, or cascading failures; or (b) is a requirement in a planning time frame that, if violated, could, under emergency, abnormal, or restorative conditions anticipated by the preparations, directly cause or contribute to bulk power system instability, separation, or a cascading sequence of failures, or could place the bulk power system at an unacceptable risk of instability, separation, or cascading failures, or could hinder restoration to a normal condition.</p> <p>A Medium Risk Factor requirement (a) is a requirement that, if violated, could directly affect the electrical state or the capability of the bulk power system, or the ability to effectively monitor and control the bulk power system, but is unlikely to lead to bulk power system instability, separation, or cascading failures; or (b) is a requirement in a planning time frame that, if violated, could, under emergency, abnormal, or restorative conditions anticipated by the preparations, directly affect the electrical state or capability of the bulk power system, or the ability to effectively monitor, control, or restore the bulk power system, but is unlikely, under emergency, abnormal, or restoration conditions anticipated by the preparations, to lead to bulk power system instability, separation, or cascading failures, nor to hinder restoration to a normal condition.</p>
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	<p>A Lower Risk Factor requirement is administrative in nature and (a) is a requirement that, if violated, would not be expected to affect the electrical state or capability of the bulk power system, or the ability to effectively monitor and control the bulk power system; or (b) is a requirement in a planning time frame that, if violated, would not, under the emergency, abnormal, or restorative conditions anticipated by the preparations, be expected to affect the electrical state or capability of the bulk power system, or the ability to effectively monitor, control, or restore the bulk power system.</p>
<p><b>Violation Severity Levels (VSLs)</b></p>	<p>Defines the degree to which compliance with a requirement was not achieved. Each requirement must have at least one VSL. While it is preferable to have four VSLs for each requirement, some requirements do not have multiple “degrees” of noncompliant performance and may have only one, two, or three VSLs.</p> <p><b>Lower Violation Severity Level:</b></p> <ul style="list-style-type: none"> <li>• Missing a minor element (or a small percentage) of the required performance</li> </ul> <p><b>Moderate Violation Severity Level:</b></p> <ul style="list-style-type: none"> <li>• Missing at least one significant element (or a moderate percentage) of the required performance.</li> </ul> <p><b>High Violation Severity Level:</b></p> <ul style="list-style-type: none"> <li>• Missing more than one significant element (or is missing a high percentage) of the required performance or is missing a single vital component.</li> </ul> <p><b>Severe Violation Severity Level:</b></p> <ul style="list-style-type: none"> <li>• Missing most or all of the significant elements (or a significant percentage) of the required performance.</li> </ul>

**Table 3 – Supporting Information Elements**

<b>Interpretation</b>	Any interpretation of regional reliability standard that is developed and approved in accordance with Section VI “Interpretation of Regional Standards” in Appendix B of this procedure, to expound on the application of the standard for unusual or unique situations or to provide clarifications.
<b>Implementation Plan</b>	Each regional reliability standard shall have an associated implementation plan describing the effective date of the standard or effective dates if there is a phased implementation. The implementation plan may also describe the implementation of the standard in the compliance program and other considerations in the initial use of the standard, such as necessary tools, training, etc. The implementation plan must be posted for at least one public comment period and is approved as part of the ballot of the standard.
<b>Supporting References</b>	<p>This section references related documents that support reasons for, or otherwise provide additional information related to the regional reliability standard. Examples include, but are not limited to:</p> <ul style="list-style-type: none"> <li>• Glossary of terms</li> <li>• Developmental history of the standard and prior versions</li> <li>• Notes pertaining to implementation or compliance</li> <li>• Regional Standard references</li> <li>• Regional Standard supplements</li> <li>• Procedures</li> <li>• Practices</li> <li>• Training references</li> <li>• Technical references</li> <li>• White papers</li> <li>• Internet links to related information</li> </ul>

**III. Maintenance of the Texas RE Regional Standards Development Process**

Significant changes to this process which are not made as part of a Texas RE request for an amendment to the Delegation Agreement shall begin with the preparation of a SAR and be addressed using the same procedure as a request to add, modify, or delete a Regional Standard.

The RSC has the authority to make ‘minor’ changes to this process as deemed appropriate by the RSC and subject to the RSC voting practices and procedures then in effect. The RSM, on behalf of the RSC, shall promptly notify the Texas RE BOD of such changes to this process for their review and concurrence at the next Texas RE BOD meeting.

**IV. Maintenance of Regional Standards**

The RSM shall ensure that each Regional Standard is reviewed at least once every five years from the effective date of the Standard or the latest revision to the Regional Standard, whichever is the later. The review process shall be conducted by soliciting comments from the stakeholders. If no changes are warranted, the RSM shall recommend to the Texas RE BOD that the Regional Standard be reaffirmed. If the review indicates a need to revise or delete a

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Regional Standard, a SAR shall be prepared and submitted in accordance with the standards development process contained in this process.

## **V. Urgent Action**

Under certain conditions, the RSC may designate a proposed Regional Standard or revision to a standard as requiring urgent action. Urgent action may be appropriate when a delay in implementing a proposed standard or revision could materially impact reliability of the BPS. The RSC must use its judgment carefully to ensure an urgent action is truly necessary and not simply an expedient way to change or implement a Regional Standard.

An originator shall prepare a SAR and a draft of the proposed standard and submit to the RSM. The standard request must include a justification for urgent action. The RSM submits the request to the RSC for its consideration. If the RSC designates the requested standard or revision as an urgent action item, then the RSM shall immediately post the draft for pre-ballot review. This posting requires a minimum 30-day posting period before the ballot and applies the same voting procedure as detailed in Step 6.

Any Regional Standard approved as an urgent action shall have a termination date specified that shall not exceed one year from the approval date. Should there be a need to make the standard permanent the standard would be required to go through the full Regional Standard Development Process. All urgent action standards require Texas RE BOD, NERC, and FERC approval, as outlined for standards in the regular process.

Urgent actions that expire may be renewed using the urgent action process again, in the event a permanent standard is not adopted. In determining whether to authorize an urgent action standard for a renewal ballot, the RSC shall consider the impact of the standard on the reliability of the BPS and whether expeditious progress is being made toward a permanent replacement standard. The RSC shall not authorize a renewal ballot if there is insufficient progress toward adopting a permanent replacement standard or if the RSC lacks confidence that a reasonable completion date is achievable. The intent is to ensure that an urgent action standard does not in effect take on a degree of permanence due to the lack of an expeditious effort to develop a permanent replacement standard. With these principles, there is no predetermined limit on the number of times an urgent action may be renewed. However, each urgent action standard renewal shall be effective only upon approval by the Texas RE BOD, and approval by applicable governmental authorities.

Any person or entity, including the drafting team working on a permanent replacement standard, may at any time submit a standard request proposing that an urgent action standard become a permanent standard by following the full standards process.



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## **VI. Interpretations of Regional Standards**

All persons who are directly and materially affected by ERCOT's BPS reliability shall be permitted to request an interpretation of a Regional Standard or Regional Variance (collectively referred to as Regional Standard). The person requesting an interpretation shall send a request to the RSM electronically using the Interpretation Request Form explaining the specific circumstances surrounding the request and what clarifications are required as applied to those circumstances. The request should indicate the material impact to the requesting party or others caused by the lack of clarity or a possibly incorrect interpretation of the standard.

The RSM shall assemble a team with the relevant expertise to address the clarification. The Interpretation Drafting Team (IDT) typically consists of members from the original SDT. The RSM shall submit the proposed list of names of the IDT to the RSC. The RSC will either accept the recommendations of the RSM or modify the IDT slate.

As soon as practical (not more than 45 days), the team will meet to draft a written interpretation to the Regional Standard addressing the issues raised. Once the IDT has completed a draft interpretation to the Regional Standard addressing only the issues raised, the team will forward the draft interpretation to the RSM. The RSM will forward the draft interpretation to the Texas RE Chief Executive Officer. The Chief Executive Officer shall assess if the inclusion of the interpretation lessens the measurability of the Regional Standard. Barring receipt of an opinion from the Chief Executive Officer within 21 days, that the interpretation lessens measurability or is not technically appropriate for the Regional Standard, the RSM shall forward the interpretation to the RSC. The RSC shall determine if the interpretation is consistent with the Regional Standard. The RSM, on behalf of the RSC, shall forward the interpretation to the Texas RE BOD for informational purposes as being appended to the approved Regional Standard.

Note: In the event that the Chief Executive Officer determines that measurability is lessened, the Chief Executive Officer shall provide an explanation of his/her reasoning to the RSM and IDT for inclusion in a subsequent reversion. In either case, the IDT and RSM will continue to re-circulate the interpretation as stated above.

The interpretation shall stand until such time as the Regional Standard is revised through the normal process, at which time the Regional Standard will be modified to incorporate the clarifications provided by the interpretation.

## **VII. Appeals**

Persons who have directly and materially affected interests and who have been or will be adversely affected by any substantive or procedural action or inaction related to the development, approval, revision, reaffirmation, or withdrawal of a Regional Standard shall have the right to appeal. This Appeals Process applies only to this Regional Standards Process.

The burden of proof to show adverse effect shall be on the appellant. Appeals shall be made within 30 days of the date of the action purported to cause the adverse effect, except appeals for inaction, which may be made at any time. In all cases, the request for appeal must be made prior to the next step in the process.

The final decisions of any appeal shall be documented in writing and made public.

The Appeals Process provides two levels, with the goal of expeditiously resolving the issue to the satisfaction of the participants:

***Level 1 Appeal***

Level 1 is the required first step in the appeals process. The appellant submits a complaint in writing to the RSM that describes the substantive or procedural action or inaction associated with Regional Standard or the Regional Standards Process. The appellant describes in the complaint the actual or potential adverse impact to the appellant. Assisted by any necessary staff and committee resources, the RSM shall prepare a written response addressed to the appellant as soon as practical, but not more than 45 days after receipt of the complaint. If the appellant accepts the response as a satisfactory resolution of the issue, both the complaint and response will be made a part of the public record associated with the Regional Standard.

***Level 2 Appeal***

If after the Level 1 Appeal the appellant remains unsatisfied with the resolution, as indicated by the appellant in writing to the RSM, the RSM shall convene a Level 2 Appeals Panel. This panel shall consist of five members total appointed by the Texas RE BOD. In all cases, Level 2 Appeals Panel Members shall have no direct affiliation with the participants in the appeal.

The RSM shall post the complaint and other relevant materials and provide at least 30 days notice of the meeting of the Level 2 Appeals Panel. In addition to the appellant, any person that is directly and materially affected by the substantive or procedural action or inaction referenced in the complaint shall be heard by the panel. The panel shall not consider any expansion of the scope of the appeal that was not presented in the Level 1 Appeal. The panel may in its decision find for the appellant and remand the issue to the RSC with a statement of the issues and facts in regard to which fair and equitable action was not taken. The panel may find against the appellant with a specific statement of the facts that demonstrate fair and equitable treatment of the appellant and the appellant's objections. The panel may not, however, revise, approve, disapprove, or adopt a Regional Standard. The actions of the Level 2 Appeals Panel shall be publicly posted.

In addition to the foregoing, a procedural objection that has not been resolved may be submitted to Texas RE BOD for consideration at the time the Texas RE BOD decides whether to adopt a particular Regional Standard. The objection must be in writing, signed by an officer of the objecting entity, and contain a concise statement of the relief requested and a clear demonstration of the facts that justify that relief. The objection must be filed no later than 30 days after the announcement of the vote on the Regional Standard in question.

## Appendix C – Regional Standard Authorization Request Form

The tables below provide a representative example of information in a Regional Standard Authorization Request (SAR). The RSM shall be responsible for implementing and maintaining the applicable form as needed to support the information requirements of the Texas RE Standards Process. The latest version of the form will be downloadable from the Texas RE's Standards Development Web page.

### Standard Authorization Request

**Texas RE to complete**

ID
Authorized for Posting
Authorized for Development

Title of Proposed Regional Standard:
Request Date:

**SAR Originator Information**

<b>Name:</b>	SAR Type (Check one box.)
Company:	<input type="checkbox"/> New Regional Standard
Telephone:	<input type="checkbox"/> Revision to Existing Regional Standard
Fax:	<input type="checkbox"/> Withdrawal of Existing Regional Standard
Email:	<input type="checkbox"/> Urgent Action

<b>Purpose</b> (Describe the purpose of the proposed regional reliability standard – what the standard will achieve in support of reliability.)
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<b>Industry Need</b> (Provide a detailed statement justifying the need for the proposed regional reliability standard, along with any supporting documentation.)
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**Brief Description** (Describe the proposed regional reliability standard in sufficient detail to clearly define the scope in a manner that can be easily understood by others.)

**Reliability Functions**

**The Regional Standard will Apply to the Following Functions** (Check all applicable boxes.)

<input type="checkbox"/>	Reliability Coordinator	The entity that is the highest level of authority who is responsible for the reliable operation of the BPS, has the Wide Area view of the BPS, and has the operating tools, processes and procedures, including the authority to prevent or mitigate emergency operating situations in both next-day analysis and real-time operations. The Reliability Coordinator has the purview that is broad enough to enable the calculation of Interconnection Reliability Operating Limits, which may be based on the operating parameters of transmission systems beyond any Transmission Operator's vision.
<input type="checkbox"/>	Balancing Authority	The responsible entity that integrates resource plans ahead of time, maintains load-interchange-generation balance within a Balancing Authority Area, and supports Interconnection frequency in real time.
<input type="checkbox"/>	Interchange Authority	Authorizes valid and balanced Interchange Schedules.
<input type="checkbox"/>	Planning Authority	The responsible entity that coordinates and integrates transmission facility and service plans, resource plans, and protection systems.
<input type="checkbox"/>	Transmission Service Provider	The entity that administers the transmission tariff and provides Transmission Service to Transmission Customers under applicable transmission service agreements.
<input type="checkbox"/>	Transmission Owner	The entity that owns and maintains transmission facilities.
<input type="checkbox"/>	Transmission Operator	The entity responsible for the reliability of its "local" transmission system, and that operates or directs the operations of the transmission facilities.
<input type="checkbox"/>	Transmission Planner	The entity that develops a long-term (generally one year and beyond) plan for the reliability (adequacy) of the interconnected bulk power transmission systems within its portion of the Planning Authority Area.
<input type="checkbox"/>	Resource Planner	The entity that develops a long-term (generally one year and beyond) plan for the resource adequacy of specific loads (customer demand and energy requirements) within a Planning Authority Area.
<input type="checkbox"/>	Generator Operator	The entity that operates generating unit(s) and performs the functions of supplying energy and Interconnected Operations Services.
<input type="checkbox"/>	Generator Owner	Entity that owns and maintains generating units.
<input type="checkbox"/>	Purchasing-Selling Entity	The entity that purchases or sells, and takes title to, energy, capacity, and Interconnected Operations Services. Purchasing-Selling Entities may be affiliated or unaffiliated merchants and may or may not own generating facilities.

<input type="checkbox"/>	Distribution Provider	Provides and operates the “wires” between the transmission system and the customer.
<input type="checkbox"/>	Load-Serving Entity	Secures energy and transmission service (and related Interconnected Operations Services) to serve the electrical demand and energy requirements of its end-use customers.

**Reliability and Market Interface Principles**

<b>Applicable Reliability Principles</b> <i>(Check all boxes that apply.)</i>	
<input type="checkbox"/>	1. Interconnected BPSs shall be planned and operated in a coordinated manner to perform reliably under normal and abnormal conditions as defined in the NERC Standards.
<input type="checkbox"/>	2. The frequency and voltage of interconnected BPSs shall be controlled within defined limits through the balancing of real and reactive power supply and demand.
<input type="checkbox"/>	3. Information necessary for the planning and operation of interconnected BPSs shall be made available to those entities responsible for planning and operating the systems reliably.
<input type="checkbox"/>	4. Plans for emergency operation and system restoration of interconnected BPSs shall be developed, coordinated, maintained, and implemented.
<input type="checkbox"/>	5. Facilities for communication, monitoring, and control shall be provided, used, and maintained for the reliability of interconnected BPSs.
<input type="checkbox"/>	6. Personnel responsible for planning and operating interconnected BPSs shall be trained, qualified, and have the responsibility and authority to implement actions.
<input type="checkbox"/>	7. The security of the interconnected BPSs shall be assessed, monitored, and maintained on a wide-area basis.

**Does the proposed Regional Standard comply with all of the following Market Interface Principles?** *(Select ‘yes’ or ‘no’ from the drop-down box.)*

Recognizing that reliability is an Common Attribute of a robust North American economy:	
1.	A reliability standard shall not give any market participant an unfair competitive advantage. Yes
2.	A reliability standard shall neither mandate nor prohibit any specific market structure. Yes
3.	A reliability standard shall not preclude market solutions to achieving compliance with that standard. Yes
4.	A reliability standard shall not require the public disclosure of commercially sensitive information. All market participants shall have equal opportunity to access commercially non-sensitive information that is required for compliance with reliability standards. Yes

**Detailed Description** *(Provide enough detail so that an independent entity familiar with the industry could draft a standard based on this description.)*

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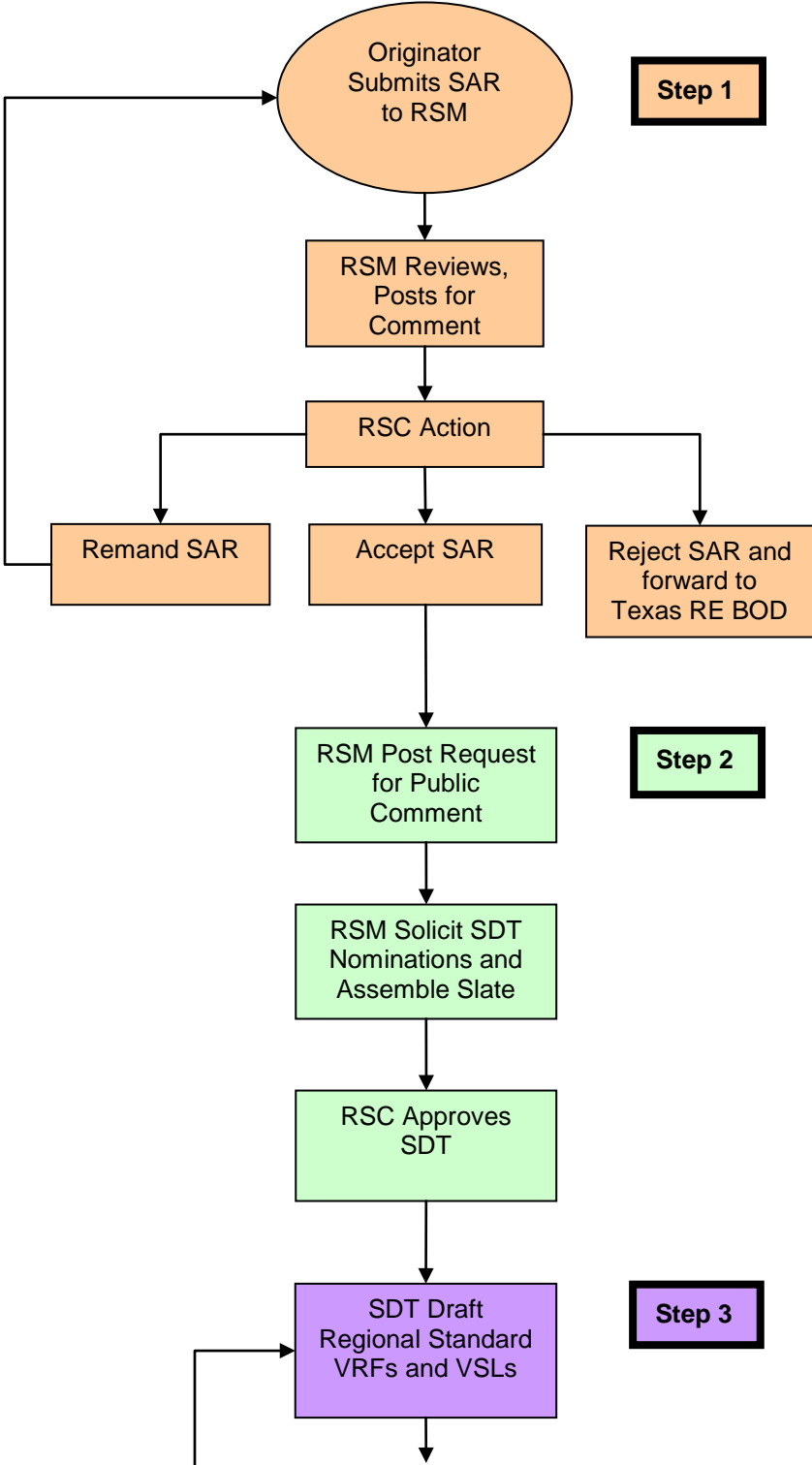
**Related Standards**

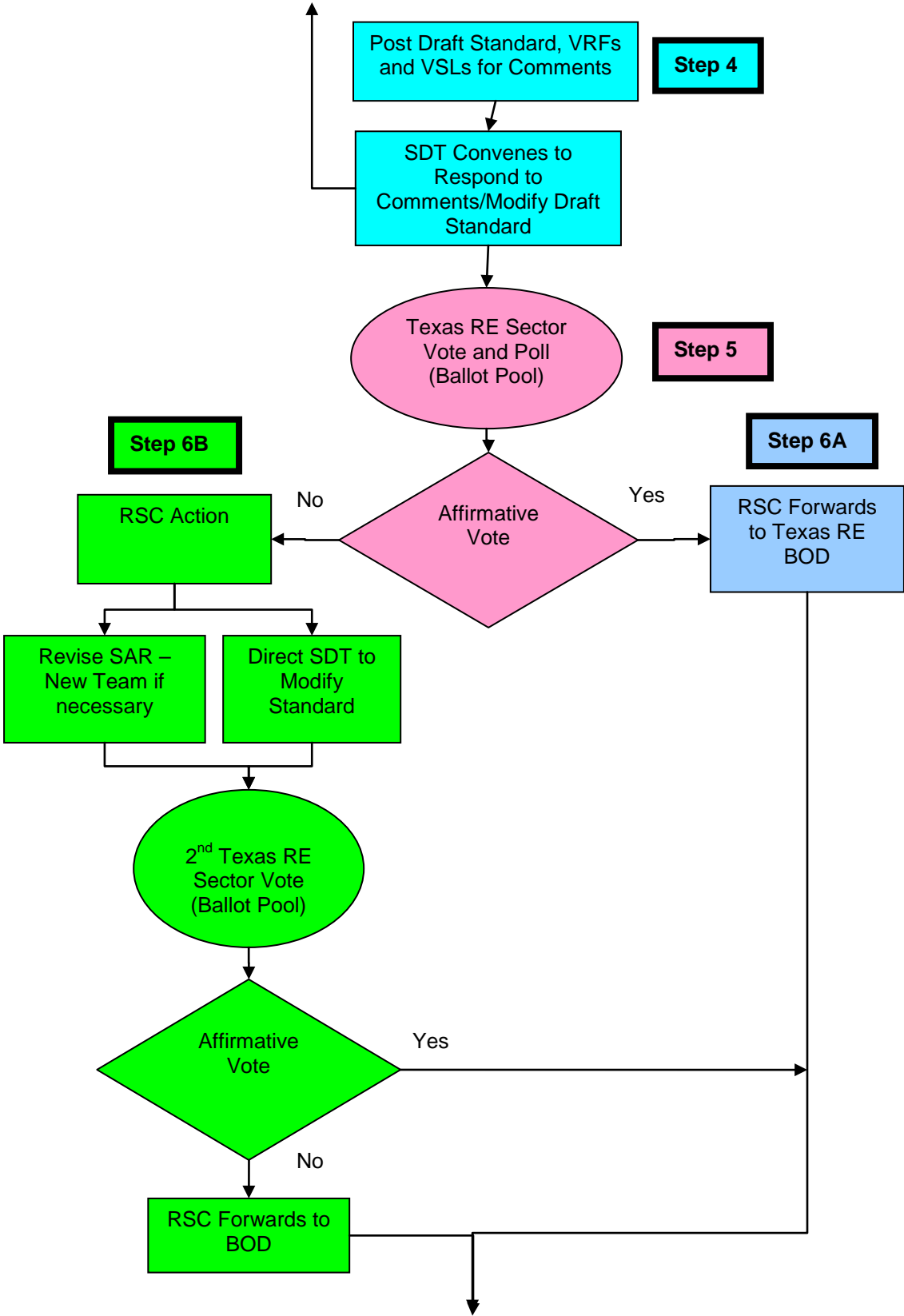
Standard No.	Explanation

**Related SARs**

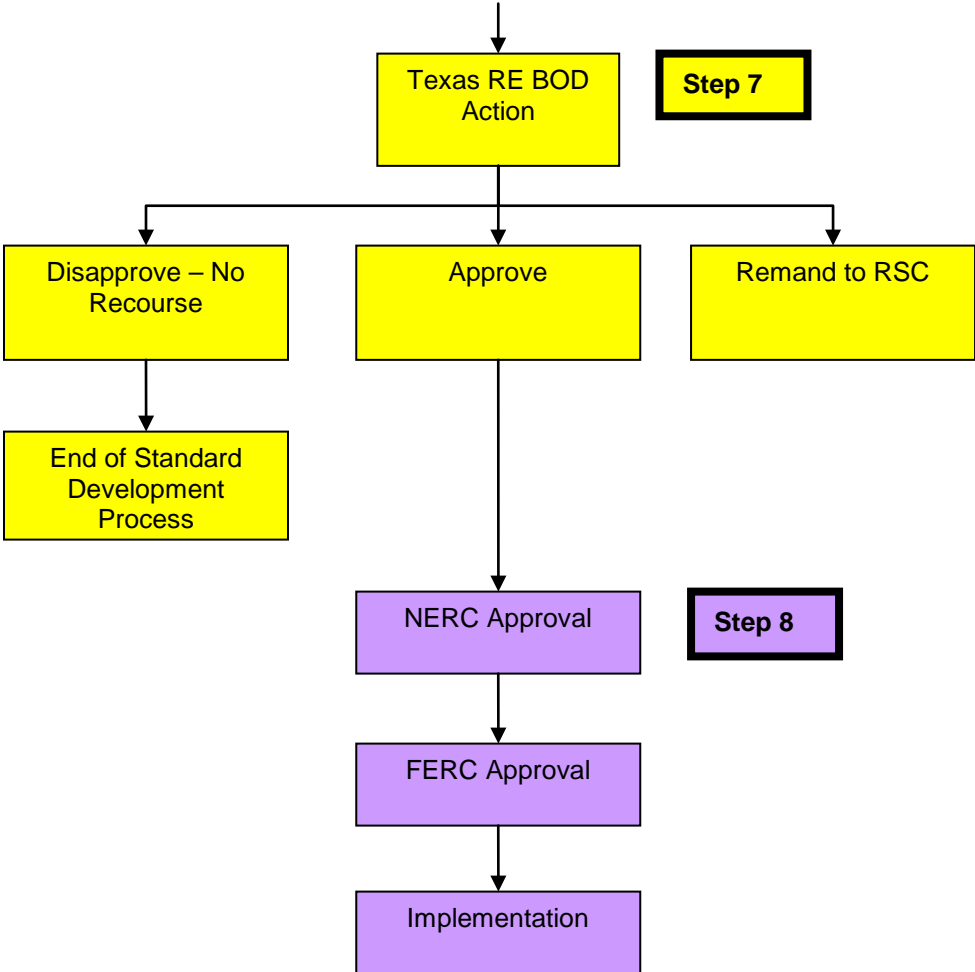
SAR ID	Explanation

**Appendix D – Texas RE Standards Development Process  
Diagram**









## EXHIBIT D – COMPLIANCE MONITORING AND ENFORCEMENT PROGRAM

### 1.0 REGIONAL COMPLIANCE MONITORING AND ENFORCEMENT PROGRAM

#### 1.1 Obligations of Texas Reliability Entity

The Texas Reliability Entity, Inc. (Texas RE), will implement the NERC Compliance Monitoring and Enforcement Program (Appendix 4C to the NERC Rules of Procedure (NERC CMEP)) to monitor and enforce compliance with Reliability Standards by the owners, operators, and users within Texas RE's geographic boundaries set forth on **Exhibit A** of this Agreement, subject to any deviations from the NERC Compliance Monitoring and Enforcement Program described in Section 1.2 below (the "Compliance Program").

#### 1.2 Deviations from the NERC Compliance Monitoring and Enforcement Program

A. **Hearing Body.** Texas RE will use the Public Utility Commission of Texas (PUCT) as its Hearing Body, and the PUCT (as Hearing Body) will issue recommendations to the Texas RE Board of Directors ("Board") which will make final decisions following regional hearings of compliance matters. The PUCT has extensive experience in conducting contested case hearings and other adjudicatory proceedings in a manner that assures due process of law to all participants. Texas RE intends to rely upon the PUCT's experience and expertise in conducting the hearing process under the Delegation Agreement. Texas RE believes that it is more efficient and cost-effective to use existing PUCT procedures than to attempt to establish a redundant hearing process within Texas RE. The PUCT is uniquely well-positioned to perform this function for the ERCOT Region since electric utilities operating in the ERCOT Region do not synchronously interconnect with electric utilities operating outside of Texas, and ERCOT market participants have experience in participating in PUCT proceedings.

B. **Public Hearings.** The PUCT as Hearing Body will hold public hearings on all matters referred to it by the Texas RE for hearing and recommendation. The PUCT's performance of Hearing Body responsibilities is fully consistent with the NERC Rules of Procedure and with Section 39.7 of FERC Order 672, with the exception of Section 39.7(b)(4), which requires "[e]ach violation or alleged violation [to] be treated as nonpublic until the matter is filed with [FERC] as a notice of penalty or resolved by an admission ... or by a settlement or other negotiated disposition." Because the PUCT is a "governmental body" under the Texas Open Meetings Act (Texas Government Code § 551.002), the PUCT is required to conduct any deliberations and render a decision in a meeting that is open to the public. The Texas Open Meetings Act also requires that any evidence or other submissions concerning a PUCT hearing, except for information that is confidential or privileged under law, be publicly available. Texas Attorney General opinions have determined that the need to consider confidential information does not justify conducting a closed meeting or executive session. Although PUCT hearings, including those contemplated under this Exhibit D, are conducted as open meetings, steps are taken to prevent the disclosure of confidential information during the hearing process. Direct testimony in such cases is generally presented in written question and answer format, with any confidential information redacted, filed under seal and provided

to parties pursuant to a protective order. In hearings conducted under these rules, the Hearing Body shall use best efforts to avoid the inadvertent disclosure of confidential information. The Presiding Officer may use the following methods to protect confidential information, in addition to the entry of an appropriate protective order: (1) Requiring the aggregation of confidential information aggregated to eliminate its confidentiality; (2) Permitting or requiring the redaction of testimony where the non-public information is not material to the merits; (3) Closing the public hearings on a temporary basis to those not bound under the terms of any case-specific protective order in place while the specific, confidential data is the subject of testimony or argument; and (4) other reasonable means in the discretion of the Presiding Officer.

Under the Texas Public Utility Regulatory Act (PURA) §39.151(j), market participants in the ERCOT market are required to comply with all scheduling, operating, planning, reliability, and settlement policies, rules, guidelines, and procedures ERCOT establishes. The PUCT is given authority to enforce this obligation through the imposition of penalties, revocation of certifications or other means. In any enforcement proceeding under PURA, PUCT deliberations are conducted in an open meeting in accordance with the procedures outlined above. ERCOT is thus unlike other power regions that may be implementing an enforcement mechanism for the first time. The history of public availability of this information in the ERCOT power region argues in favor of the continued public availability of information considered in enforcement hearings the PUCT conducts as Hearing Body for the Texas RE.

Moreover, elsewhere in Order No. 672, FERC stated that: “If the ERO or a Regional Entity wishes to conduct a public investigation, enforcement audit or permit interventions when determining whether to impose a penalty, the ERO or the Regional Entity must receive advance authorization from the Commission.”<sup>1</sup>

In response to the request by Texas RE’s predecessor to be permitted to hold public hearings as outlined herein, FERC issued *In the matter of Delegation Agreement Between the North American Electric Reliability Corporation and Texas Regional Entity, a division of ERCOT*, Docket No. RR07-1-000, *Order Accepting ERO Compliance Filing, Accepting ERO/Regional Entity Delegation Agreements and Accepting Regional Entity 2007 Business Plans*, 119 FERC 61,060 at ¶253 (Issued April 19, 2007)(Delegation Agreement Acceptance Order). The Delegation Agreement Acceptance Order provides for open hearings as requested.

**C. Hearing Administration.** PUCT, as Hearing Body, is authorized to hear cases and render its recommendations through the PUCT Commissioners. The Hearing Body is authorized to use the PUCT staff of Administrative Law Judges (ALJs) and other trained employees to establish the procedures and timelines that will be followed in the regional hearings, including the conduct of hearings and the preparation of draft recommendations. These presiding officers will not, however, have any authority to issue a final recommendation on any alleged violation. The ALJs and staff may preside over hearings before the PUCT, may establish the procedural schedule for these proceedings, take evidence, prepare a draft recommendation, and perform all tasks

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<sup>1</sup> Order 672, ¶511.

delegated from the PUCT, except the final rendition and approval of the final recommendation to be provided to the Chief Compliance Officer.

**D. Detailed Hearing Procedures.** The details of the Texas Reliability Entity Regional Hearing Process are attached hereto as **Attachment 1 and Attachment 2**. **Attachment 1** consists of a summary of the NERC CMEP procedures that must be altered to accommodate Texas RE's request to have the PUCT act as its Hearing Body. **Attachment 1** is a summary of necessary revisions to Attachment 2 of the CMEP, and together with **Attachment 2** hereto and the incorporated PUCT Chapter 22 Procedural Rules, provides the details of the regional hearing process Texas RE has adopted.

In addition to the requested modifications to procedures set forth in Attachment 2 of the CMEP, Texas RE also varies from Section 5.5 of the main body of the CMEP, allowing the Board's decision (instead of the hearing body's decision) to be appealed to NERC. This language is contained as subsection 9.2 of **Attachment 1**: "The Registered Entity may appeal the Board's decision to NERC, as provided for in NERC Rules of Procedure, Sections 407.3 and 410."

**E. Regional Hearing of Compliance Matters.** Texas RE shall establish the PUCT as the hearing body, with authority to conduct compliance hearings in which a Registered Entity may contest a finding of alleged violation, proposed penalty or sanction, or a proposed mitigation plan. The PUCT will issue a final recommendation to the Board rather than a final order.

### **1.3 Other Decision-Making Bodies.**

Texas RE will not use other decision-making bodies within its compliance program.

## **ATTACHMENT 1 TO EXHIBIT D – TEXAS RE REGIONAL HEARING PROCESS**

### **1.0 Designation of Hearing Body**

All formal compliance hearings shall be held before the Compliance Enforcement Authority's Hearing Body. The Hearing Body shall be the Public Utility Commission of Texas. All hearings shall be conducted under the hearing procedures set forth in Attachment 2 to Exhibit D ("Attachment 2—Rules of Procedure"), supplementing this Attachment 1. As set forth in Attachment 2— Rules of Procedure, the Hearing Body may delegate any hearing-related task to a Presiding Officer, except for the issuance of the final recommendation.

The Compliance Enforcement Authority shall initiate the hearing process following the completion of the Notice of Alleged Violation and proposed sanction and registered entity response processes in accordance with Section 5.1 of the North American Electric Reliability Corporation ("NERC") Compliance Monitoring and Enforcement Program ("NERC CMEP"), as set forth below.

Following the filing of a proceeding contesting an Alleged Violation or a Remedial Action Directive, no person shall engage in ex parte communications with the Hearing Body, including without limitation any appointed Presiding Officer, concerning the matter in dispute until the written decision of the Board of Directors or a compliance committee of the Board of Directors ("Board") is issued pursuant to Section 9.1 is appealed or the deadline for filing an appeal has passed; provided, however, that: (a) a member of the Hearing Body or the Presiding Officer may communicate ex parte with another member of the Hearing Body unless prohibited by other law, and (b) a member of the Hearing Body or the Presiding Officer may communicate ex parte with a Commission employee who has not participated in a hearing in the case for the purpose of using the special skills or knowledge of the agency and its staff in evaluating the evidence.

The Hearing Body may rule on all procedural and discovery matters pursuant to Attachment 2—Rules of Procedure.

The Hearing Body may delegate to a single commissioner, a hearings examiner, or an administrative law judge (a "Presiding Officer") the authority to establish the procedures and dates for the presentation of all materials concerning the alleged violation and the power to hear evidence and to issue a draft recommendation, but the Hearing Body may not delegate its authority to issue a final recommendation on the alleged violation to the Board of the Compliance Enforcement Authority.

In accordance with Attachment 2—Rules of Procedure, the Hearing Body may provide for additional procedures as it deems necessary to effectively carry out a compliance hearing. To the extent permitted by law, any provision in this Attachment 1 may be waived, suspended, or modified by the Presiding Officer or the Hearing Body, as defined in Attachment 2—Rules of Procedure §1.1.5, for good cause shown, either upon the Presiding Officer's or the Hearing Body's own motion or upon the motion of any Party.

## **2.0 Recusal of Member of Hearing Body**

A Hearing Body member, Presiding Officer, or Technical Advisor shall recuse himself or herself if participation in the enforcement proceeding would violate the Compliance Enforcement Authority's Conflict of Interest or Code of Conduct policy.

The Registered Entity may raise an objection to any member of the Hearing Body, a Presiding Officer or Technical Advisor on grounds of a conflict of interest or the existence of other circumstances that could interfere with the that person's impartial performance of his or her duties. Such objections must be provided in writing and filed reasonably in advance of the start of the hearing and the Presiding Officer shall make a decision on the objection promptly. Upon request of the Registered Entity, the Hearing Body (without participation of the Hearing Body member, Presiding Officer, or Technical Advisor) may review the determination and, if so, shall issue a decision on the objection promptly.

## **3.0 Authorized Representatives**

Both the Compliance Enforcement Authority and the Registered Entity shall submit to the Hearing Body the names of the persons authorized to represent them in the Hearing Process pursuant to Attachment 2—Rules of Procedure. Such persons shall be officers or equivalents of the Regional Entity and the Registered Entity that have the authority to act on behalf of the Regional Entity and the Registered Entity, respectively. In addition, a party shall advise the Hearing Body and the other party if the party will be represented by legal counsel.

## **4.0 Statement of Alleged Violation and Response by Registered Entity**

The Registered Entity shall initiate the compliance hearing process in accordance with Section 5.1 of the NERC CMEP and Attachment 2—Rules of Procedure by filing with the Hearing Body Clerk a statement or complaint contesting the written Notice of Alleged Violation and proposed sanction and serving a copy upon the Compliance Enforcement Authority. Specifically, the Registered Entity shall file with the Hearing Body (with service of copies upon the Compliance Enforcement Authority) a written statement of reasons why the Alleged Violation is in error or a written statement of reasons why the proposed penalty or sanction is inappropriate (if applicable in the particular case), along with copies of all documents relied on by the Registered Entity to support its position. If the dispute involves a Registered Entity's proposed mitigation plan ("Registered Entity's Mitigation Proposal") that has not been accepted by the Compliance Enforcement Authority, the Registered Entity may initiate the hearing process by filing a request for hearing with the Hearing Body Clerk and serving a copy upon the Compliance Enforcement Authority.

Within five (5) business days after the request for review of the Alleged Violation, penalty, or mitigation plan or Remedial Action Directive is filed, the Compliance Enforcement Authority's designated representative shall file with the Hearing Body (with copies to the Registered Entity) a copy of the written Notice of the Alleged Violation and proposed sanction that was originally provided to the Registered Entity, along with copies of any non-privileged or non-exempt documents gathered and reviewed by the Compliance Enforcement Authority in the course of determining an Alleged Violation has occurred and in determining the proposed sanction or penalty.

If the hearing involves the question of whether a Registered Entity's Mitigation Proposal

should be accepted, within twenty (20) days after the request for review of the Alleged Violation, penalty, or mitigation plan or Remedial Action Directive is filed, the Compliance Enforcement Authority shall file a report stating why the Registered Entity's Mitigation Proposal was not accepted. If the hearing involves a Registered Entity's Mitigation Proposal, the Registered Entity shall file its proposed Mitigation Plan and supporting information stating why the Mitigation Plan should be accepted within thirty (30) days after the date the request for review of the Alleged Violation, penalty, or mitigation plan or Remedial Action Directive is filed.

## **5.0 Setting of Hearings and Conferences**

The Hearing Body shall set a date for an initial conference within thirty (30) days after the date the request for review of the Alleged Violation, penalty, or mitigation plan or Remedial Action Directive is filed. At the initial conference, the Hearing Body shall establish specific procedures for the hearing including (1) any procedures for exchange of additional documents, (2) any written testimony, (3) the hearing date(s), and (4) dates for any briefs. Subject to Section 6.0 and the Attachment 2—Rules of Procedure, each party shall be entitled to (1) present the testimony of witnesses, (2) cross-examination of opposing witnesses, (3) make an oral presentation of position, and (4) file a written post-hearing brief.

The Hearing Body may hold additional conferences. All notices of conferences and hearings shall set forth the date, time and place of hearing. The Hearing Body shall issue a written order setting forth the agreements and rulings made at each conference.

By agreement of the parties or order of the Hearing Body, any conference or hearing may be conducted via teleconference, except that, subject to section 6.0 of this hearing process, witnesses shall personally appear at the hearing.

All prehearing conferences and hearings shall be open to the public, except when the use of a closed meeting is authorized by Texas law.

## **6.0 Conduct of Hearing**

The hearing will be conducted under the provisions of this section 6.0 and the Attachment 2— Rules of Procedure.

The hearing need not be held on consecutive days, and shall be held at the offices of the Hearing Body unless the Hearing Body decides on a different location after consulting with the parties.

The party requesting transcription of the hearing, the Registered Entity or Compliance Enforcement Authority, will arrange and pay for transcription of the hearing.

The Hearing Body shall direct the direct testimony of any witnesses be in written form in accordance with Attachment 2— Rules of Procedure. All witnesses shall be required to appear in person, unless waived by the parties and the Hearing Body. Motions shall be made and decided, evidence shall be presented, and a record shall be made in accordance with Attachment 2— Rules of Procedure.

## **7.0 Submission of Post-Hearing Briefs**

The parties may submit post-hearing briefs on a schedule established by the Hearing Body pursuant to Attachment 2— Rules of Procedure. The parties may, and on request of the Hearing Body shall, submit proposed findings of fact and conclusions of law.

## **8.0 Record of the Compliance Hearing**

If applicable, copies of the following documents shall be maintained by the Hearing Body as the record of the hearing process:

- (1) The written notice that a request for review of the Alleged Violation, penalty, or mitigation plan or Remedial Action Directive has been filed with the Hearing Body Clerk;
- (2) The Notice of Alleged Violation and sanction issued by the Compliance Enforcement Authority and the response filed by the Registered Entity, including in each case all attachments thereto and documents provided therewith;
- (3) If the hearing involves a Registered Entity's Mitigation Proposal, (a) the Registered Entity's Mitigation Proposal and supporting information as to why the Registered Entity's Mitigation Proposal should be accepted and (b) the report of the Compliance Enforcement Authority stating why the Registrant's Mitigation Proposal was not accepted;
- (4) Any requests for recusal of a member of the Hearing Body, a Presiding Officer, or a Technical Advisor, and any responses to such requests;
- (5) All motions, notices and responses filed by the parties during the hearing process;
- (6) All documents that set forth or that summarize any ex parte communications;
- (7) All notices and rulings issued by the Hearing Body during the hearing process;
- (8) All interlocutory orders;
- (9) All written testimony and all exhibits received into evidence;
- (10) All written testimony and documentary exhibits that were proffered but not admitted into evidence;
- (11) Any transcript(s);
- (12) The parties' post-hearing briefs, any exceptions to the draft recommendation, any motions for reconsideration or rehearing, and any other post-decision briefing or motion;
- (13) The draft recommendation of the Presiding Officer, if any; and
- (14) The final recommendation of the Hearing Body.

## **9.0 Timing of Written Recommendation to the Board**

The Hearing Body shall issue its written final recommendation to the Board within thirty (30) days following the submission of post-hearing briefs, or, if briefing is waived, following the conclusion of the hearing. The Hearing Body may in its discretion extend the time for the issuance of the written final recommendation to the Board for up to an additional sixty (60) days. The written final recommendation shall state the opinion of the Hearing Body with respect to Alleged Violations of Reliability Standards and proposed penalties or sanctions at issue in the hearing. If the hearing involves a Registered Entity's Mitigation Proposal, the written final recommendation shall either



propose acceptance or rejection of the Registered Entity's Mitigation Proposal. If the proposed Registered Entity's Mitigation Proposal is recommended for rejection, the Hearing Body may specify the provisions of an alternative plan of mitigation that the Registered Entity should be required to implement. The written final recommendation shall explain the reasons for the Hearing Body's conclusions and cite the testimony and exhibits relied on by the Hearing Body in reaching its opinions. Copies of the written final recommendation shall be served electronically and by certified mail on the Registered Entity and on the Compliance Enforcement Authority's designated representative at the time it is issued to the Board.

### **9.1 Written Decision by the Board**

The Board shall issue its written decision accepting, rejecting or modifying the Hearing Body's recommendation, within twenty (20) business days following the issuance of the Hearing Body's written final recommendation. The Board may extend the date for issuance of its written decision for an additional twenty (20) business days in its sole discretion. The Board's written decision shall state the conclusion of the Board with respect to Alleged Violations of Reliability Standards and proposed penalties or sanctions at issue in the hearing. If the hearing involves a Registered Entity's Mitigation Proposal, the written decision shall either accept or reject the Registered Entity's Mitigation Proposal. If the proposed Registered Entity's Mitigation Proposal is rejected, the Board may specify the provisions of the Registered Entity's Mitigation Proposal that the Registered Entity should be required to implement, together with other mitigation measures the Board shall require. The written decision shall explain the reasons for the Board's conclusions and cite the testimony and exhibits relied on by the Board in reaching its conclusions. Copies of the written decision shall be served electronically and by certified mail on the Registered Entity, on the Compliance Enforcement Authority's designated representative, and on the Hearing Body.

### **9.2 NERC Appeal Process**

The Registered Entity may appeal an adverse decision of the Board to NERC, as provided for in NERC Rules of Procedure, Sections 407.3 and 410.

### **10.0 Expedited Hearing Process for Disputes Concerning Remedial Action Directives**

A Registered Entity that disputes a Remedial Action Directive issued by a Compliance Enforcement Authority may request an expedited hearing. To facilitate the expedited hearing, the Compliance Enforcement Authority may request that the Hearing Body convene for purposes of the expedited hearing process. The following expedited procedures shall be followed:

- (1) The Registered Entity shall file its written response the Remedial Action Directive and request for emergency hearing with the Hearing Body, with a copy to the Compliance Enforcement Authority's designated representative within two (2) business days after receipt of the Remedial Action Directive. The Hearing Body may appoint a Presiding Officer to conduct all proceedings under this Section 10.0, except for the issuance of a final recommendation to the Board.
- (2) The Hearing Body shall be convened for purposes of a prehearing, and if requested, for interim relief, not less than two (2) nor more than five (5) business days after receipt of the Registered Entity's request for a hearing.

- (3) The Hearing Body shall conduct a hearing on the matter, in person or by teleconference, within thirty (30) days after the Hearing Body is convened. At the hearing, the Compliance Enforcement Authority shall explain why the Remedial Action Directive should be complied with, and the Registered Entity shall explain why the Remedial Action Directive is not necessary or should be modified.
- (4) The Hearing Body shall issue a summary written recommendation to the Board within twenty (20) business days following the hearing, stating whether the Registered Entity should or should not be required to comply with the Remedial Action Directive and identifying any modifications to the directive that it finds appropriate.
- (5) The Board shall issue a summary written decision within ten (10) business days following the Hearing Body's issuance of its summary written recommendation, stating whether the Registered Entity shall or shall not be required to comply with the Remedial Action Directive and identifying any modifications to the directive that it finds appropriate.
- (6) If the Board's summary written decision concludes that the Registered Entity is required to comply with the Remedial Action Directive or any modification to such directive (including adjustments to the timetable for implementation), the Registered Entity shall be required to begin implementing the Remedial Action Directive upon receipt of the summary written decision, if it has not already implemented the Remedial Action Directive.
- (7) Within thirty (30) days following issuance of its summary written decision, the Board shall issue a full written decision regarding the Remedial Action Directive to the requirements of Section 9.0, above, that may be appealed consistent with Section 9.2.
- (8) This Section 10.0 provides procedures for the expeditious determination of the propriety of a contested Remedial Action Directive. Nothing in this Section shall be read to impair the Compliance Enforcement Authority's authority to issue a Notice of Alleged Violation and proposed sanction on alleged violations of standards addressed by a Remedial Action Directive or on other alleged violations occurring contemporaneously with the Remedial Action Directive or at any other time using the non-expedited procedures of this Attachment 1 or Attachment 2— Rules of Procedure.

## ATTACHMENT 2 TO EXHIBIT D – TEXAS RE RULES OF PROCEDURE

### 1.1 Applicability, Definitions and Interpretation

#### 1.1.1 Procedure Governed

The provisions set forth in this Attachment 2 to the Texas Reliability Entity, Inc. (“Texas RE” or “Compliance Enforcement Authority”) (“Rules of Procedure”) shall apply to and govern practice and procedure before the Compliance Enforcement Authority and Hearing Board, as defined herein, in hearings in the ERCOT region of the United States conducted into (a) whether Registered Entities within the Compliance Enforcement Authority’s area of responsibility have violated Reliability Standards, and (b) if so, to determine the appropriate Mitigation Plans as well as any remedial actions, penalties or sanctions in accordance with the NERC *ERO Sanction Guidelines* and other applicable penalty guidelines approved by FERC pursuant to 18 C.F.R. Section 39.7(g)(2). Any hearing conducted pursuant to these Rules of Procedure shall be conducted before the Public Utility Commission of Texas (“Commission”), as is further provided herein.

#### 1.1.2 Deviations and Exceptions

- (a) To the extent permitted by law, any provision in these Rules of Procedure may be waived, suspended or modified by the Presiding Officer or the Hearing Body, as defined in Section 1.1.5, for good cause shown, either upon the Presiding Officer’s or the Hearing Body’s own motion or upon the motion of any Party.
- (b) Where an issue is not addressed by the terms of these Rules, the Hearing Body shall use the Chapter 22 Procedural Rules.
- (c) The following provisions of Chapter 22 shall not be applicable to proceedings brought under these Procedural Rules:
  - (1) P.U.C. PROC. R. § 22.32;
  - (2) P.U.C. PROC. R. § 22.33;
  - (3) P.U.C. PROC. R. § 22.35;
  - (4) P.U.C. PROC. R. §§ 22.51-22.54;
  - (5) P.U.C. PROC. R. § 22.56;
  - (6) P.U.C. PROC. R. § 22.71(j);
  - (7) P.U.C. PROC. R. §§ 22.102(a)(3), (4) and (c);
  - (8) P.U.C. PROC. R. §§ 22.103-22.105;
  - (9) P.U.C. PROC. R. §§ 22.125-22.126;
  - (10) P.U.C. PROC. R. § 22.202(e);
  - (11) P.U.C. PROC. R. §§ 22.206-22.207;
  - (12) P.U.C. PROC. R. §§ 22.241-22.246;
  - (13) P.U.C. PROC. R. §§ 22.251-22.252;
  - (14) P.U.C. PROC. R. § 22.263(d); and

(15) P.U.C. PROC. R. §§ 22.281-22.284.

(d) For purposes of this Attachment 2—Rules of Procedure, the following shall supplement the terms of a Chapter 22 Rule, as specified:

(1) P.U.C. PROC. R. § 22.31. The following subsection (d) shall be added:

“(d) The Hearing Body Clerk shall designate each proceeding brought under these rules as a docket.”

(2) P.U.C. PROC. R. § 22.72(e). The following sentence shall be added at the end of this subsection:

“A party or its authorized representative shall also provide in its signature block one or more electronic mail addresses to which service may be made.”

(3) P.U.C. PROC. R. § 22.74(b). The following sentence shall be added at the end of this subsection:

“(b) . . . Service may be made by electronic mail to the email address included in a signature block of a party or its authorized representative.

\* \* \*

“(4) Service by email shall be complete upon transmission of the communication from the electronic mail server of the serving party.”

(e) All proceedings filed under these rules shall be conducted under the Commission’s Chapter 22 Procedural Rules, as modified herein, but may not be referred to the State Office of Administrative Hearings.

### 1.1.3 Standards for Discretion

The Hearing Body’s discretion under these Rules of Procedure shall be exercised to accomplish the following goals:

- (a) Integrity of the Fact-Finding Process - The principal goal of the hearing process is to assemble a complete factual record to serve as a basis for a correct and legally sustainable ruling, decision or order.
- (b) Fairness - Persons appearing in Compliance Enforcement Authority proceedings should be treated fairly. To this end, Parties should be given fair notice and opportunity to present explanations, factual information, documentation and legal argument. Action shall be taken as necessary to eliminate any disadvantage or prejudice to a Party that would otherwise result from another Party’s failure to act diligently and in good faith.
- (c) Independence - The hearing process should be tailored to protect against undue influence from any Person, Party or interest group.
- (d) Balanced Decision-Making - Decisions should be based solely on the facts and arguments of record in a proceeding and by individuals who satisfy the Compliance Enforcement Authority’s conflict of interest policy.

- (e) Impartiality - Persons appearing before the Hearing Body should not be subject to discriminatory or preferential treatment. Registered Entities should be treated consistently unless a reasonable basis is shown in any particular proceeding to depart from prior rulings, decisions or orders.
- (f) Expedition - Proceedings shall be brought to a conclusion as swiftly as is possible in keeping with the other goals of the hearing process.

#### **1.1.4 Interpretation**

- (a) These Rules of Procedure shall be interpreted in such a manner as will aid in effectuating the Standards for Discretion set forth in Section 1.1.3, and so as to require that all practices in connection with the hearings shall be just and reasonable.
- (b) Unless the context otherwise requires, the singular of a term used herein shall include the plural and the plural of a term shall include the singular.
- (c) To the extent that the text of a rule is inconsistent with its caption, the text of the rule shall control.

#### **1.1.5 Definitions**

- (a) Unless otherwise defined, as used in these Rules of Procedure (i) definitions in Section 1.1 of the NERC Compliance Monitoring and Enforcement Program shall apply, and (ii) the following terms shall have the following meanings:

“Board” means the Board of Directors of Texas Reliability Entity.

“Bulk-Power System,” for the purposes of these Rules of Procedure, has the meaning set forth in 16 U.S.C. §824o(a)(1).

“Chapter 22” or “Commission Procedural Rules” shall mean the Chapter 22 Procedural Rules of the Commission, 16 TEX. ADMIN. CODE ch. 22., and be cited as “P.U.C. PROC. R. § [].”

“Commission” means the Public Utility Commission of Texas.

“Compliance Enforcement Authority Clerk,” as designated by the Compliance Enforcement Authority.

“Compliance Enforcement Authority” means the Regional Entity, by and through its Chief Executive Officer.

“Compliance Enforcement Authority’s area of responsibility” means the Texas Reliability Entity’s corporate region.

“Critical Energy Infrastructure Information” means specific engineering, vulnerability, or detailed design information about proposed or existing critical infrastructure that: (i) relates details about the production, generation, transportation, transmission, or distribution of energy; (ii) could be useful to a person in planning an attack on critical infrastructure; and (iii) does not simply give the location of the critical infrastructure.

“Critical infrastructure” means existing and proposed systems and assets, whether physical or virtual, the incapacity or destruction of which would negatively affect security, economic security, public health or safety, or any combination of those matters.

“Cybersecurity Incident” means a malicious act or suspicious event that disrupts, or was an attempt to disrupt, the operation of those programmable electronic devices and communications networks including hardware, software, and data that are essential to the Reliable Operation of the Bulk-Power System.

“ERO” means the Electric Reliability Organization, currently the North American Electric Reliability Corporation, or any successor organization, certified by FERC pursuant to 18 C.F.R. §39.3.

“FERC” means the Federal Energy Regulatory Commission.

“Filing Clerk” or “Hearing Body Clerk” means the Central Records filing clerk of the Public Utility Commission of Texas.

“Hearing Body” means the Public Utility Commission of Texas.

“Mitigation Plan” means an action plan developed by a Registered Entity to (i) correct a violation of a Reliability Standard and (ii) prevent reoccurrence of the violation. A Mitigation Plan is required when a Registered Entity violates a Reliability Standard as determined by any means including Compliance Enforcement Authority Decision, settlement agreement, or otherwise.

“Party” means any Person who is allowed or required to participate in a proceeding conducted pursuant to these Rules of Procedure. The term “Party” as used herein shall include the members of the Compliance Staff of the Compliance Enforcement Authority that participate in a proceeding.

“Penalty” as used herein includes all penalties and sanctions that may be imposed pursuant to 16 U.S.C. §824o-1 and applicable regulations, including but not limited to a monetary or non-monetary penalty; a limitation on an activity, function, operation or other appropriate sanction; or the addition of the Registered Entity to a reliability watch list composed of major violators. Penalties must be within the range set forth in the NERC *ERO Sanction Guidelines* approved by FERC pursuant to 18 C.F.R. Section 39.7(g)(2), and shall bear a reasonable relation to the seriousness of a Registered Entity’s violation and take into consideration any timely efforts made by the Registered Entity to remedy the violation.

“Person” means any individual, partnership, corporation, limited liability company, governmental body, association, joint stock company, public trust, organized group of persons, whether incorporated or not, or any other legal entity.

“Presiding Officer” or “Hearing Examiner” means an individual employed or contracted by the Hearing Body and designated by the Hearing Body to preside over hearings conducted pursuant to these Rules of Procedure.

“North American Electric Reliability Council” or “NERC” means North American Electric Reliability Corporation.

“Registered Entity” means each user, owner and operator of the Bulk-Power System within the United States that is required to register with the Regional Entity pursuant to 18 C.F.R. § 39.2.

“Regional Entity” means Texas Reliability Entity or Texas RE.

“Reliable Operation” has the meaning set forth in Section 215 of the Federal Power Act.

“Reliability Standards” means standards approved by FERC pursuant to Section 215 of the Federal Power Act and 18 C.F.R. Section 39.5, as such standards are authorized and in effect from time to time.

“Remedial Action Directive” means an action (other than a penalty or sanction) required that (1) is to bring a Registered Entity into compliance with a Reliability Standard or to avoid a Reliability Standard violation, and (2) is immediately necessary to protect the reliability of the Bulk Power System from an imminent threat of harm.

“Respondent” means the Registered Entity who is the subject of the Notice of Alleged Violation or contested Mitigation Plan that is the basis for the proceeding, whichever is applicable.

“Staff” or “Compliance Staff” means individuals employed or contracted by the Compliance Enforcement Authority who have the authority to make initial determinations of Registered Entities’ compliance with or violation of the Reliability Standards and associated Penalties and Mitigation Plans.

“Technical Advisor” means any Staff member, Hearing Body employee, third-party contractor, or industry stakeholder who satisfies the Compliance Enforcement Authority’s conflict of interest policy and is selected to assist in a proceeding by providing technical advice to the Presiding Officer and/or the Hearing Body.

- (b) For purposes of this Attachment 2--Rules of Procedure and in application to any proceeding brought under these rules, the following terms shall be substituted for the term used in a Chapter 22 rule:

“Administrative law judge” shall mean and refer to the defined term “Presiding Officer.”

“Central records” shall mean “Hearing Body Clerk.”

“Final order” shall mean “final recommendation.”

“Proposal for decision” shall mean “draft recommendation.”

“Public utility” shall mean “party.”

- (c) If a term is defined in this Attachment 2—Rules of Procedure and in Chapter 22, the meaning expressed herein shall prevail.

### **1.1.6 Interventions Are Not Permitted**

The Respondent(s) and Compliance Staff shall be Parties to the proceeding. Unless otherwise authorized by FERC, no other Persons shall be permitted to intervene or otherwise become a Party to the proceeding.

#### **1.1.7. Proceedings Open to the Public**

All hearings, oral arguments, and meetings of the Hearing Body shall be open to the public, and every notice, ruling, order or any other issuance of the Presiding Officer or Hearing Body, and any transcript, made in any proceeding shall be publicly released unless a Party has requested that it be kept confidential in accordance with Texas law, and the Presiding Officer or Hearing Body determines that the information should not be released publicly.

#### **1.1.8 Numbering and Docketing System**

The Staff of the Compliance Enforcement Authority shall maintain a system of numbering proceedings before they are sent to the Hearing Body for a hearing under these procedures. A numbered proceeding shall be created within the Compliance Enforcement Authority upon the issuance of a notice of Alleged Violation. Unless NERC provides a different docketing system that will be used uniformly by the Compliance Enforcement Authority, proceeding numbers shall be assigned sequentially beginning with a two digit number that relates to the last two digits of the year in which the docket is initiated, followed by a dash ("-"), followed by the letters "[RE]", followed by a dash ("-"), followed by a four digit number that will be "0001" on January 1 of each calendar year and ascend sequentially until December 31 of the same calendar year. If the proceeding is not settled and becomes a contested matter before the Hearing Body, the Hearing Body's numbering and docketing system shall govern the tracking of such filings while under the Hearing Body's administration.

### **1.2 Hold Harmless**

A condition of a Party invoking these Rules of Procedure and participating in a hearing is that the Party agrees that the Compliance Enforcement Authority, including without limitation its members, board of directors or trustees, compliance committee, any other committees or subcommittees, Staff, contracted employees, attorneys and experts (outside or in-house), Hearing Body members, Presiding Officers and Technical Advisors, shall not be liable, and shall be held harmless against the consequences of, or any action or inaction arising out of, the hearing process, or of any agreement reached in resolution of a dispute or any failure to reach agreement as a result of a proceeding. This "hold harmless" provision does not extend to matters constituting gross negligence, intentional misconduct, or breach of confidentiality.

### **1.3 Initiation of the Hearing Process**

Except when contesting a Remedial Action Directive pursuant to section 1.5 of these Rules of Procedure, a Registered Entity may file a response or complaint with the Compliance Enforcement Authority and the Filing Clerk requesting a hearing if:

- (a) The Registered Entity contests a Notice of Alleged Violation as to the existence or scope of the alleged violation, the proposed Penalty, or both; or
- (b) The Registered Entity contests the Compliance Enforcement Authority's rejection of Registered Entity's Mitigation Proposal in whole or in part.



A Registered Entity must file its hearing request within forty (40) days after (i) the Registered Entity files its response to the notice of Alleged Violation; or (ii) the Compliance Staff submits to the Registered Entity its statement identifying a disagreement with the Registered Entity's Mitigation Proposal, whichever is applicable. If the Registered Entity does not file a hearing request within the time period set forth in this Section, then the Registered Entity will be deemed to have agreed and waived any objection to the proposed Penalty, the Alleged Violation or the Compliance Staff's stated position on the Registered Entity's Mitigation Proposal, whichever is applicable.

Either a notice of Alleged Violation issued to a Registered Entity or a Staff statement setting forth its disagreement with a Registered Entity's Mitigation Proposal shall clearly state that the Registered Entity has the option to contest the Alleged Violation, proposed Penalty, or both, or the Compliance Staff's position on the Registered Entity's Mitigation Proposal.

A Registered Entity shall attach to a request for hearing whichever of the following are applicable:

- (a) The Registered Entity's Self-Reporting of a violation;
- (b) The Notice of Alleged Violation and the Registered Entity's response thereto; or
- (c) The Registered Entity's Mitigation Proposal and the Compliance Staff's statement identifying its disagreement with the Registered Entity's Mitigation Proposal.

#### **1.4 General Hearing Procedure**

Except as otherwise specified in this Attachment 2—Rules of Procedure, the procedures and timelines set forth in Chapter 22 shall govern the conduct of a hearing arising under these rules.

##### **1.4.1 Hearing Body**

The Hearing Body, consisting of a quorum of the Commission, shall hear all proceedings brought under these Rules of Procedure, unless the Commission elects to delegate all or part of the proceeding to a Presiding Officer who is a member of the Commission Staff. The Hearing Body is vested with the exclusive authority to issue a final recommendation to the Board for the resolution of the issue(s) presented. The following procedures shall also apply:

- (a) The Hearing Body or any individual member thereof may, but is not required to, attend any prehearing conference, status hearing or evidentiary hearing, or to submit questions to the Presiding Officer to submit to a Party or any witness at any such hearing. No more than one member of the Hearing Body may be present for any prehearing conference, status hearing, or evidentiary hearing unless the Hearing Body has complied with the Open Meetings requirements of Texas law.
- (b) The Hearing Body shall resolve the issue(s) in every hearing through the issuance of a final recommendation to the Board. In issuing a final recommendation to the Board, the Hearing Body shall consider the Presiding Officer's draft recommendation but shall have the authority to

reject, modify or approve the draft recommendation in whole or in part in issuing its final recommendation.

#### **1.4.2 Technical Advisor**

The Presiding Officer or the Hearing Body may elect to use one or more Technical Advisors to assist in any proceeding. Such an election may be made at any time during the course of a proceeding. Any Staff member who serves as a Technical Advisor shall not have been involved in or consulted at any time in regard to any Compliance Staff investigation, initial determination of Alleged Violation or Penalty, or assessment of a Registered Entity's proposed Mitigation Plan that resulted in the proceeding in which technical advice would be rendered, and shall not otherwise participate in the proceeding on which such technical advice would be rendered.

If the Presiding Officer or Hearing Body uses a Technical Advisor to assist in any hearing, the Presiding Officer or Hearing Body shall disclose the identity, employment history and professional affiliations of the Technical Advisor within two (2) days of the Technical Advisor's assignment to the proceeding, and Parties to the hearing may raise objections to the Technical Advisor's participation within 10 business days of disclosure.

#### **1.5 Initiation of Remedial Action Directive Hearing**

Staff may issue a Remedial Action Directive to a Registered Entity at any time, including during any proceeding related to an alleged violation of a Reliability Standard. The Compliance Enforcement Authority will notify NERC within two (2) days after its Staff issues a Remedial Action Directive.

The Registered Entity may contest the Remedial Action Directive in accordance with these Rules of Procedure and Delegation Agreement, Exhibit D, Attachment 1, §10, by filing a written notice with the Compliance Enforcement Authority that states that the Registered Entity contests the Remedial Action Directive and that the Registered Entity requests a Remedial Action Directive hearing. The Registered Entity shall attach a copy of the Remedial Action Directive to its written notice. The Registered Entity must provide such notice within two (2) business days following issuance of the Remedial Action Directive. If the Registered Entity does not give written notice to the Compliance Enforcement Authority within the required time period, the Registered Entity shall be deemed to have waived its right to contest the Remedial Action Directive.

The Registered Entity shall simultaneously file with the Hearing Body Clerk a copy of the notice that it is contesting the Remedial Action Directive.

The Hearing Body Clerk shall assign a docket number, and issue a Notice of Hearing that sets forth the date, time and place at which the hearing will convene.

## Exhibit E — Funding

### 1. Scope of activities funded through the ERO funding mechanism

Texas Reliability Entity, Inc. (“Texas RE”) shall include in its annual budget submission to the North American Electric Reliability Corporation (“NERC”) amounts for costs it will incur in support of delegated activities and activities that are in furtherance of NERC’s responsibilities as the ERO under the Act, as specified in the NERC Rules. These activities shall include:

- Reliability Standard Development (Section 300)
- Compliance Enforcement (Section 400)
- Organization Registration and Certification (Section 500)
- Reliability Assessment and Performance Analysis (Section 800) (including necessary data gathering activities)
- Training and Education (Section 900)
- Situational Awareness and Infrastructure Security (Section 1000)

### 2. Allocation of Costs

Texas RE shall allocate its dues, fees, and other charges for its activities pursuant to the delegation agreement among all load-serving entities on the basis of net-energy-for load, unless a different method or methods of allocating and calculating such dues, fees, or charges has been submitted to and approved by NERC and the Commission, in accordance with Section 8(b) of the delegation agreement. Texas RE shall submit to NERC annually at the same time it submits its budget request a list of the load-serving entities within its geographic boundaries and their proportionate net-energy-for load or such other data or information as is necessary to allocate and calculate Texas RE’s dues, fees, or charges under any other method of allocation or calculation that is to be used.

### 3. Collection of Funding

(a) NERC, Texas RE, and Electric Reliability Council of Texas, Inc. (“ERCOT”) have agreed that ERCOT shall act as the billing agent on behalf of NERC to bill and collect assessments for the costs of activities under the Act from load-serving entities, ERCOT Qualified Scheduling Entities (“QSEs”), or such other entities as agreed by NERC, Texas RE, and ERCOT. ERCOT and Texas RE agree that ERCOT shall: (i) issue all invoices to load-serving entities, QSEs, or other agreed entities in a prompt and timely manner after receipt from NERC of the information needed to issue the invoice; (ii) exercise commercially reasonable efforts to collect invoices that are not paid as of the due date(s); and (iii) transfer all funds collected to NERC quarterly, in a timely manner. Texas RE shall confirm that ERCOT complies with these obligations, and shall notify NERC promptly of any compliance failures.

NERC shall submit invoices on a quarterly basis to ERCOT covering the NERC and Texas RE budgets approved for collection for the ERCOT region. No later than the later of (i) the first day of the calendar quarter and (ii) ten (10) business days after receiving this quarterly invoice, ERCOT will electronically transmit to NERC the amount reflected in the invoice, in immediately available funds, unless ERCOT has been unable to collect and does not reasonably believe it can collect such amount from load-serving entities, QSEs, or other agreed entities, after exercise of commercially reasonable efforts. On the same day as ERCOT makes each electronic transfer of funds to NERC, ERCOT will send an e-mail to the Chief Financial Officer of NERC and the Chief Executive Officer of Texas RE either (i) confirming that the full invoiced amount has been electronically transmitted to NERC or (ii) stating that ERCOT is unable to collect the full amount of

the NERC invoice and reasonably believes that it will not be able to collect the full amount of the NERC invoice from load-serving entities, QSEs, or other agreed entities after exercise of commercially reasonable efforts and confirming the amount that has been transmitted to NERC. In the event ERCOT is unable to transfer to NERC the full invoiced amount, ERCOT shall also send to NERC and Texas RE a listing of any load-serving entity, QSE or other agreed entity that has not fully paid its load ratio share and an itemization of the collections that ERCOT received, by entity and amount. ERCOT will maintain a detailed list of the entities from which payments were collected and the amount collected from each entity.

ERCOT and Texas RE agree that they shall not in any way use their position as billing or collection agent for NERC to attempt to influence NERC's policies or decisions on matters relating to adoption of reliability standards (including regional standards and differences), administration of the compliance monitoring and enforcement matters, determination and imposition of penalties and sanctions, budgeting matters including review and approval of Texas RE's budgets and business plans, or any other NERC decisions, including by issuing invoices, engaging in collection activities or transferring funds collected to NERC in an untimely manner or other than in accordance with this agreement. ERCOT's confirmation of its agreements as set forth in this Paragraph 3 is attached hereto as Attachment 1.

NERC shall pursue any non-payments and shall request assistance from applicable governmental authorities as necessary to secure collection.

(b) Upon approval of the annual funding requirements by applicable governmental authorities, NERC shall fund Texas RE's costs identified in Section 1 of this Exhibit E in four equal quarterly payments, within ten (10) business days after receiving the remittance from ERCOT.

#### **4. Application of Penalties**

All penalty monies received by Texas RE, other than penalty monies received from an operational function or division or affiliated entity of Texas RE, shall be applied as a general offset to the entity's budget requirements for U.S.-related activities under this Agreement for the subsequent fiscal year. Funds from financial penalties shall not be directly applied to any program maintained by the investigating entity. Any penalty monies received from an operational function or division or affiliated entity of Texas RE shall be transmitted to or retained by NERC and shall be used by NERC as a general offset to NERC's budget for its activities as the ERO under the Act for the following year. Provided, however, that the allocation between NERC and Texas RE of any penalty monies paid by ERCOT after the effective date of this Agreement in respect of violations of reliability standards occurring before the effective date of this Agreement, shall be agreed to by NERC and Texas RE in a separate document.

#### **5. Description of Non-Statutory Activities**

In addition to its delegated activities and activities that are in furtherance of NERC's responsibilities as the ERO under the Act, as specified in Section 1 of this Exhibit E (such functions and activities referred to in this Section 5 as "statutory activities"), Texas RE will also continue to perform the following other functions and activities (referred to in this Section 5 as "non-statutory activities") at least through December 31, 2010:

- Investigation of market participants' compliance with the ERCOT Protocols and Operating Guides which contain the Regional criteria for planning and operating reliable interconnected bulk electrical systems in the ERCOT region, and assistance or cooperation in enforcement of violations ("ERCOT Compliance Activities"), so long as the ERCOT Compliance Activities do not conflict with the statutory activities, including: (i) maintaining a record of all material occurrences of non-compliance with ERCOT procedures and tracking recurrence of such material occurrences of non-compliance; (ii) promptly providing information to and responding to questions from market participants to allow the market participant to understand and respond to alleged material occurrences of

non-compliance with ERCOT procedures; (iii) maintaining a record of the resolutions of such material occurrences of non-compliance and of corrective actions taken by the market participants in each instance; and (iv) informing the Public Utility Commission of Texas Staff immediately if the material occurrence of non-compliance is not resolved.

- Development of policies, processes, standards, and procedures to implement the ERCOT Compliance Activities.

Texas RE shall employ the following methods and procedures to (i) keep its funding mechanisms for its statutory activities separate from its funding mechanisms for its non-statutory activities, and (ii) record the costs and expense it incurs in the performance of its non-statutory functions separately from the costs and expense it incurs in the performance of its statutory functions:

- A. Texas RE segregates the funding for its statutory activities and non-statutory activities by recording the funding transactions in separate and distinct general ledger accounts, in accordance with Generally Accepted Accounting Principles.
- B. Texas RE utilizes and must maintain a time recording and expense management system under which employee time and expenses incurred in the conduct of non-statutory activities will be tracked to ensure that they are not funded by NERC remittances intended for the funding of statutory activities.
- C. Texas RE has adopted a detailed system of Account Codes, Department Codes and Activity Codes which are used in recording expenses. The Activity Codes are specific to statutory activities and non-statutory activities. The Texas RE Activity Codes are modeled on the NERC Functional Categories. Texas RE shall use Department Codes that are unique to Texas RE to record all costs and expenses incurred by Texas RE for statutory activities and non-statutory activities.
- D. Texas RE shall use Activity Codes to appropriately track its costs for statutory activities separately from its costs for non-statutory activities.
- E. Where employee time or an expense affects multiple activities, Texas RE will use an accurate basis of allocation of the time or expense between the activities being performed based on specific metrics, such as time tracking, data observations or total cost input. Total cost input relates the portion of the expense to the total expense to establish an appropriate method to allocate.

Texas RE shall provide its budget for such non-statutory activities to NERC at the same time that Texas RE submits its annual budget request to NERC pursuant to Section 1. Texas RE's budget for non-statutory activities that is provided to NERC shall contain a detailed list of Texas RE's non-statutory activities. Texas RE agrees that no costs of non-statutory activities are to be included in the calculation of Texas RE dues, fees, and other charges for its statutory activities pursuant to this Agreement.

Confirmation of Electric Reliability Council of Texas, Inc.

Electric Reliability Council of Texas, Inc. (ERCOT), the Independent System Operator (ISO) for the ERCOT region, has agreed to act as the billing agent on behalf of NERC to bill and collect assessments for the costs of activities under Section 215(c) of the Federal Power Act from load-serving entities, Qualified Scheduling Entities (QSEs), or such other entities as agreed by North American Electric Reliability Corporation (NERC), Texas Reliability Entity, Inc. (Texas RE), and ERCOT. ERCOT agrees that ERCOT shall: (i) issue all invoices to load-serving entities, QSEs, or other agreed entities in a prompt and timely manner after receipt from NERC of the information needed to issue the invoice; (ii) exercise commercially reasonable efforts to collect invoices that are not paid as of the due date(s); and (iii) transfer all funds collected to NERC on a quarterly basis, in a timely manner.

On a quarterly basis, NERC will send ERCOT an invoice covering the NERC and Texas RE budgets approved for collection for the ERCOT region. No later than the later of (i) the first day of the calendar quarter and (ii) ten (10) business days after receiving this invoice, ERCOT will electronically transmit to NERC, in immediately available funds, the amount reflected in the NERC invoice, unless ERCOT has been unable to collect and does not reasonably believe it will be able to collect this amount from load-serving entities, QSEs, or other agreed entities after exercise of commercially reasonable efforts. On the same day as ERCOT makes its electronic transfer of funds to NERC, ERCOT will send an e-mail to the Chief Financial Officer of NERC, copying the Texas RE Chief Executive Officer either (i) confirming that the full invoiced amount has been electronically transmitted to NERC; or, (ii) stating that ERCOT is unable to collect the full amount of the NERC invoice and reasonably believes that it will not be able to collect the full amount of the NERC invoice from load-serving entities, QSEs, or other agreed entities after exercising commercially reasonable efforts and confirming the amount that has been transmitted to NERC. In the event ERCOT is unable to transfer to NERC the full invoice amount, ERCOT shall also send to NERC and Texas RE a listing of any load-serving entity, QSE, or other agreed entity that has not paid its load ratio share and an itemization of the collections that ERCOT received by entity and amount. ERCOT shall maintain a detailed list of the entities from which payments are collected and the amount collected from each entity.

ERCOT agrees that it shall not in any way use its position as billing or collection agent for NERC to attempt to influence NERC's policies or decisions on matters relating to adoption of reliability standards (including regional standards and differences), administration of the compliance monitoring and enforcement matters, determination and imposition of penalties and sanctions, budgeting matters including review and approval of Texas RE's budgets and business plans, or any other NERC decisions, including by issuing invoices, engaging in collection activities or transferring funds collected to NERC in an untimely manner or other than in accordance with this agreement.

Electric Reliability Council of Texas, Inc.

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

**ATTACHMENT 2**

**PROPOSED AMENDED AND RESTATED DELEGATION AGREEMENT**

**BETWEEN NERC AND**

**TEXAS RELIABILITY ENTITY, INC. —**

**REDLINED AGAINST**

**AMENDED AND RESTATED DELEGATION AGREEMENT**

**BETWEEN NERC AND**

**TEXAS REGIONAL ENTITY, A DIVISION OF**

**ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.**

**AMENDED AND RESTATED DELEGATION AGREEMENT BETWEEN  
NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION  
AND TEXAS ~~REGIONAL ENTITY — A DIVISION OF ELECTRIC RELIABILITY~~  
~~COUNCIL OF TEXAS~~ ENTITY, INC.**

AMENDED AND RESTATED DELEGATION AGREEMENT (“Agreement”) made effective ~~January 3, 2009~~, 2010, between the North American Electric Reliability Corporation (“NERC”), an organization certified by the Federal Energy Regulatory Commission (“Commission”) pursuant to Section 215(c) of the Federal Power Act to establish and enforce Reliability Standards for the bulk power system, and the Texas ~~Regional Entity — a Division of Electric Reliability Council of Texas~~ Entity, Inc. (“Texas RE”), an organization established to develop and enforce Reliability Standards within the geographic boundaries identified on **Exhibit A** to this Agreement, and for other purposes. NERC and Texas RE may be individually referred to herein as “Party” or collectively as “Parties.”

**WITNESSETH**

**WHEREAS**, Subtitle A of the Electricity Modernization Act of 2005 added Section 215 to the Federal Power Act (16 U.S.C. § 824n) (hereafter “the Act”) and, among other things, provides for the establishment of an electric reliability organization (“ERO”) to develop and enforce Reliability Standards applicable to all owners, operators, and users of the bulk power system;

**WHEREAS**, the Commission has adopted regulations for the implementation of the Act set forth at Chapter I, Title 18, Code of Federal Regulations, Part 39, as adopted by Commission Order No. 672 in Docket No. RM05-30-000 on February 3, 2006; (114 FERC ¶ 61, 104; hereafter “Order 672”);

**WHEREAS**, the Commission has certified NERC as the ERO that will, in accordance with the Act, establish and enforce Reliability Standards for the bulk power system, subject to certain delegation provisions described below;

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**WHEREAS**, the Act recognizes the international interdependency of electric reliability within North America and envisions the ERO and such applicable Regional Entities as international organizations;

**WHEREAS**, the Act and Section 39.8 of the Commission’s regulations provide for the delegation by the ERO of authority to propose and enforce Reliability Standards to regional entities such as Texas RE provided that:

- (A) The Regional Entity is governed by —
  - (i) an independent board;
  - (ii) a balanced stakeholder board; or
  - (iii) a combination independent and balanced stakeholder board.
- (B) The Regional Entity otherwise satisfies the provisions of Section 215(c)(1) and (2) of the Act; and
- (C) The agreement promotes effective and efficient administration of bulk power system reliability;

**WHEREAS**, certain Regional Entities are organized on an Interconnection-wide basis and are therefore entitled to the presumption set forth in the Act that: “[t]he ERO and the Commission shall rebuttably presume that a proposal for delegation to a Regional Entity organized on an Interconnection-wide basis promotes effective and efficient administration of bulk power system reliability and should be approved”;

**WHEREAS**, the Act further provides that the ERO shall rebuttably presume that a proposal from a Regional Entity organized on an Interconnection-wide basis for a Reliability Standard or modification to a Reliability Standard to be applicable on an Interconnection-wide basis is just, reasonable, and not unduly discriminatory or preferential, and in the public interest;

**WHEREAS**, Texas RE is organized on an Interconnection-wide basis and therefore is entitled to the rebuttable presumptions accorded such an entity;

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**WHEREAS**, NERC will work through Texas RE to carry out certain of its activities in furtherance of its responsibilities as the electric reliability organization under the Act; and

**WHEREAS**, NERC has concluded that Texas RE meets all requirements of the Act, the Commission’s regulations, and the NERC Rules of Procedure as approved by the Commission (“NERC Rules”) necessary to qualify for delegation;

**NOW, THEREFORE**, in consideration of the mutual covenants and agreements herein contained, NERC and Texas RE, agree as follows:

**1. Definitions.** The capitalized terms used in this Agreement shall be defined as set forth in the Act, the Commission’s regulations, or the NERC Rules or, if not so defined, shall be defined as follows:

(a) **Breach** means (i) the failure of a Party to perform or observe any material term, condition or covenant of the Agreement or (ii) a representation in Section 2 of the Agreement shall have become materially untrue.

(b) **Cross-Border Regional Entity** means a Regional Entity that encompasses a part of the United States and a part of Canada or Mexico.

(c) **Delegated Authority** means the authority delegated by NERC to Texas RE to propose and enforce Reliability Standards pursuant to the Act.

(d) **Texas RE Rules** means the bylaws, a rule of procedure or other organizational rule or protocol of Texas RE.

(e) **Reliability Standard** means a requirement approved by the Commission under Section 215 of the Federal Power Act to provide for reliable operation of the bulk power system. The term includes requirements for the operation of existing bulk power system facilities, including cyber security protection, and the design of planned additions or modifications to such facilities to the extent necessary for reliable operation of the bulk power system; but the term does not include any requirement to enlarge such facilities or to construct new transmission capacity or generation capacity.

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**2. Representations.**

(a) For purposes of its Delegated Authority, Texas RE hereby represents and warrants to NERC that:

(i) Texas RE is and shall remain during the term of this Agreement validly existing and in good standing pursuant all applicable laws relevant to this Agreement and that no applicable law, contract or other legal obligation prevents it from executing this Agreement and fulfilling its obligations hereunder. Texas RE is governed in accordance with its bylaws by a combination independent and balanced stakeholder board. Pursuant to these bylaws, no two industry sectors can control any Texas RE decision and no single industry sector can veto any Texas RE decision. ~~The relevant portions of such~~The bylaws are attached hereto as **Exhibit B**, and as so attached are in full force and effect. No other such corporate governance documents are binding upon Texas RE.

(ii) As set forth in **Exhibit C** hereto, Texas RE has developed a standards development procedure, which provides the process that Texas RE may use to develop Regional Reliability Standards and Regional Variances that are proposed to NERC for adoption.

(iii) As set forth in **Exhibit D** hereto, Texas RE has developed a regional compliance enforcement program, which provides for the enforcement of Reliability Standards within its geographic boundaries.

(b) NERC hereby represents and warrants to Texas RE that:

(i) It is and shall remain during the term of this Agreement validly existing and in good standing pursuant all applicable laws relevant to this Agreement and that no applicable law, contract or other legal obligation prevents it from executing this Agreement and fulfilling its obligations hereunder; and

(ii) It has been certified as the ERO by the Commission pursuant to the Act.

**3. Covenants.**

(a) During the term of this Agreement, Texas RE shall maintain and preserve its qualifications for delegation pursuant to the Act and shall not amend the Texas RE Rules without

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NERC's approval, which shall not be unreasonably withheld or delayed and which shall, in the case of a Regional Entity organized on an Interconnection-wide basis, be governed by the presumptions provided for in Section 215(d)(2) and (e)(4)(C) of the Act, and be subject to any required Commission approval.

(b) During the term of this agreement, NERC shall maintain its qualification and status as the ERO pursuant to the Act and, subject to the provisions of Sections 16 and 17 of this Agreement, NERC shall not adopt amendments to the NERC Rules that conflict with the rights, obligations or programs of Texas RE under this Agreement without first obtaining the consent of Texas RE, which consent shall not be unreasonably withheld or delayed.

(c) During the term of this agreement, NERC and Texas RE shall adhere to and require that all participants in their respective activities under this Agreement follow and comply with the NERC Antitrust Compliance Guidelines.

#### **4. Delegation of Authority.**

(a) Based upon the representations, warranties and covenants of Texas RE in Sections 2 and 3 above, the corporate governance documents set forth in **Exhibit B**, the standards development process set forth in **Exhibit C**, and the regional compliance enforcement program set forth in **Exhibit D**, NERC hereby delegates authority, pursuant to Section 215(e)(4) of the Act, to Texas RE for the purpose of proposing Reliability Standards to NERC, as set forth in Section 5 of this Agreement, and enforcing Reliability Standards, as set forth in Section 6 of this Agreement, within the geographic boundaries set forth on **Exhibit A**. Without limiting the scope of the foregoing delegation, as of the effective date of this Agreement, Texas RE is delegated authority and responsibility for continuation of all compliance monitoring and enforcement activities formerly delegated to and conducted by Texas Regional Entity, a division of Electric Reliability Council of Texas, Inc. ("ERCOT") prior to the effective date, including without limitation: all compliance audits, spot checks, self-certifications, self-reports, compliance violation investigations, investigations of complaints, investigation and processing of possible violations and alleged violations and imposition of penalties or sanctions for violations, review, acceptance or rejection, and oversight of completion of settlement agreements with and mitigation plans of registered entities, and receipt, review, acceptance or rejection, approval or disapproval, and ongoing monitoring, of Technical Feasibility Exceptions requested by

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registered entities to certain Requirements of Critical Infrastructure Protection Standards. No further redelegation of authority or responsibility, in total or in part, under this Agreement is allowed without NERC's express consent.

(b) For Cross-Border Regional Entities, the authority delegated by this Agreement shall extend only to the portion of the region identified on **Exhibit A** that is within the United States. Any delegation of authority by governmental authorities in Canada or Mexico shall be governed by a separate agreement and is outside the scope of this Agreement; provided, however, that both Texas RE and NERC shall endeavor to ensure that this Agreement and such separate agreements are compatible.

(c) As a condition to this delegation of authority and subject to the provisions of section 16 of this Agreement, Texas RE shall comply with the applicable provisions of NERC's Certificate of Incorporation, Bylaws, Rules of Procedure, and Reliability Standards, as from time to time adopted, approved, or amended.

## 5. **Reliability Standards.**

(a) In connection with its Delegated Authority, Texas RE shall be entitled to:

(i) propose Reliability Standards, Regional Variances, or modifications thereof to NERC, which shall be considered by NERC through an open and inclusive process for proposing and adopting Reliability Standards that affords Texas RE reasonable notice and opportunity to be heard; and

(ii) develop Regional Reliability Standards and Regional Variances through Texas RE's process as set forth in **Exhibit C**. Proposals approved through Texas RE's process shall be reviewed by the NERC Board of Trustees after NERC provides notice and an opportunity for interested persons to comment. In the case of a proposal from a Regional Entity organized on an Interconnection-wide basis, comments shall be limited to the factors identified in NERC Rule 313, section 3.1 as it may be amended from time to time. The NERC board of trustees shall promptly thereafter consider such proposed Regional Reliability Standard or Regional Variance, applying the rebuttable presumption described in subsection 5(b) if the proposed Regional Reliability Standard or Regional Variance is from a Regional Entity organized on an Interconnection-wide basis, and either approve the proposed standard and submit it to the Commission for approval, or disapprove it in writing setting forth its reasons.

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Texas RE may appeal any disapproval of a proposed Regional Reliability Standard or Regional Variance to the Commission.

(b) Pursuant to Section 215(d)(3) of the Act, NERC shall rebuttably presume that a proposal from a Regional Entity organized on an Interconnection-wide basis for a Regional Reliability Standard or Regional Variance or modification thereof to be applicable on an Interconnection-wide basis is just, reasonable, and not unduly discriminatory or preferential, and in the public interest. Any person challenging such proposal from the Texas RE shall have the burden of proof. NERC shall not find that this presumption has been rebutted except based upon substantial evidence that has been disclosed to, and been subject to comment by, the Texas RE during NERC's review of the proposal.

**6. Enforcement.**

(a) In connection with its delegated authority pursuant to this Agreement, Texas RE shall enforce Reliability Standards (including Regional Reliability Standards and Regional Variances) within the geographic boundaries set forth in **Exhibit A** through the compliance enforcement program set forth in **Exhibit D**. NERC and Texas RE agree that this program meets all applicable requirements of the Act, Order 672 and the Commission's regulations, including, *inter alia*, the requirement for an audit program pursuant to Section 39.7(a) of the Commission's regulations, the assessment of penalties pursuant to Section 39.7(c) through 39.7(g) of the Commission's regulations and the requirements for due process. Texas RE may not change its compliance enforcement program set forth in **Exhibit D** absent NERC's approval, which shall not be unreasonably withheld or delayed. Subject to the rights and limitations of Sections 16 and 17 of this Agreement, Texas RE agrees to comply with the NERC Rules in implementing this program.

(b) Texas RE shall report promptly to NERC any self-reported violation or investigation of a violation or an alleged violation of a Reliability Standard and its eventual disposition. Such report shall include the owner's, operator's, or user's name, which Reliability Standard or Reliability Standards were violated or allegedly violated, when the violation or alleged violation occurred, other pertinent facts about the violation including circumstances surrounding the violation with any known risk to the bulk power system, when the violation was or will be mitigated, the name of a person knowledgeable about the violation or alleged violation

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to serve as a point of contact with the Commission, and any other information required by NERC compliance program procedures. NERC shall promptly forward such report to the Commission. NERC and Texas RE shall cooperate in filing such periodic summary reports as the Commission shall from time to time direct on violations of Reliability Standards and summary analyses of such violations.

(c) Each violation or alleged violation shall be treated as nonpublic until the matter is filed with the Commission as a notice of penalty or resolved by an admission that the owner, operator, or user of the bulk power system violated a Reliability Standard or by a settlement or other negotiated disposition. However, any hearing conducted by the Public Utility Commission of Texas (PUCT) concerning an alleged violation in the ERCOT power region shall be conducted as a public hearing and any evidence or other submissions concerning the hearing, except for information that is confidential or privileged under law, shall be publicly available. Following the hearing, the PUCT shall issue its recommendation on the appropriate resolution of the allegations in a written document that will be publicly available. Notwithstanding the foregoing, the disposition of each violation or alleged violation that relates to a Cybersecurity Incident or that would jeopardize the security of the bulk power system if publicly disclosed shall be nonpublic unless the Commission directs otherwise.

(d) All appeals of penalties imposed by Texas RE shall be filed with NERC, in accordance with the NERC Rules.

(e) Texas RE shall maintain the capability to conduct investigations of potential violations of Reliability Standards and to conduct such investigations in a confidential manner.

(f) Texas RE shall maintain a program of proactive enforcement audits including procedures for spot-checks of self-reported compliance and periodic audits of all responsible entities as defined in **Exhibit D**.

(g) As part of its compliance enforcement program, Texas RE shall maintain a conflict of interest policy that assures the integrity of such program and the independence of the compliance program staff from those subject to enforcement actions.

(h) As often as NERC deems necessary, but no less than every three years, NERC shall review Texas RE's compliance enforcement program to ensure that: (i) the program meets all applicable legal requirements; (ii) actual practices reflect the requirements; and (iii) the program administered pursuant to the Delegated Authority promotes consistent interpretations

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across North America of Reliability Standards and comparable levels of sanctions and penalties to violations of Reliability Standards constituting comparable levels of threat to reliability of the bulk power system.

(i) Texas RE shall modify its compliance enforcement program as needed to reflect additions to, deletions from, or modifications of Reliability Standards and, subject to the rights and limitations of Sections 16 and 17 of this Agreement, shall modify its compliance enforcement program as needed: (i) to reflect amendments to the NERC Rules; (ii) to comply with NERC directives resulting from the review of compliance enforcement programs as provided in Section 6(h) of this Agreement; or (iii) to resolve a conflict with a function, rule, order, tariff, rate schedule, or agreement accepted, approved, or ordered by the Commission.

(j) NERC shall conduct a review with the Regional Entities that provides for the exchange of information on practices, experiences, and lessons learned in the implementation of compliance enforcement programs.

**7. Delegation-Related Services.** NERC will engage Texas RE on its behalf to carry out certain of its activities that are in furtherance of its responsibilities as the ERO under the Act or in support of delegated functions, as specified in the NERC Rules and listed on **Exhibit E**.

**8. Funding.** Texas RE and NERC shall ensure that the delegated functions and related activities listed on **Exhibit E** have reasonable and adequate funding and resources by undertaking the following:

(a) NERC shall fund Texas RE activities necessary for Texas RE to carry out its Delegated Authority under this Agreement, including the functions listed on **Exhibit E**, and shall not impose any obligation or requirement regarding Delegated Authority upon Texas RE without providing appropriate funding to carry out such mandates;

(b) Texas RE and NERC agree that costs of carrying out Texas RE's responsibilities under the Delegation Agreement will be equitably allocated among end users within the geographic boundaries described in **Exhibit A** and recovered through a formula based on net-energy-for load or through such other formula as is proposed by Texas RE and approved by NERC and the Commission. If Texas RE proposes to use a formula other than net energy for load beginning in the following year, Texas RE shall submit the proposed formula to NERC in

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sufficient time that NERC may review and approve the proposed formula and file it with the Commission for approval by May 15, and the proposed formula shall be effective for the following year if approved by the Commission on or before the date the Commission approves the annual business plan and budget submitted by NERC and Texas RE to the Commission pursuant to 18 C.F.R. §39.4, for such year.

(c) NERC will ensure that the costs for its responsibilities are first allocated fairly among the interconnections and regions according to the applicability of this work to those interconnections and regions, and then equitably among the end users of the applicable interconnections and regions as appropriate. Allocation on a net energy for load basis will be presumed to satisfy this equitability requirement.

(d) NERC shall provide Texas RE with the form for budget submittal no later than April 30 of the prior year.

(e) Texas RE shall submit its annual budget for carrying out its Delegated Authority functions and related activities listed on **Exhibit E**, as well as all other Texas RE activities and funding to NERC no later than June 1 of the prior fiscal year such that NERC may submit its budget to the Commission 130 days in advance of the beginning of each fiscal year. The Texas RE budget submission shall include supporting materials, including Texas RE's complete business plan and organization chart, explaining the proposed collection of all dues, fees and charges, and the proposed expenditure of funds collected in sufficient detail to justify the requested funding collection and budget expenditures, as well as the budget, supporting materials, and proposed allocation and method of collection for the costs of any approved regional advisory body. NERC shall develop, in consultation with the Regional Entities, a reasonable and consistent system of accounts, with a level of detail and record keeping comparable to the Commission's Uniform System of Accounts and sufficient to allow the Commission to compare each Commission-approved NERC fiscal year budget with the actual results at the NERC and Regional Entity level. Texas RE shall follow NERC's prescribed system of accounts. NERC shall make an informational filing with the Commission describing any such waiver it permits and providing an explanation supporting the permitted departure.

(f) Texas RE's funding system shall include reasonable reserve funding for unforeseen and extraordinary expenses and other contingencies, consistent with generally accepted accounting principles.

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(g) NERC shall review and approve Texas RE's budget for meeting its responsibilities under the Delegation Agreement.

(h) Texas RE shall submit unaudited quarterly interim financial statements in form provided by NERC no later than 20 days after the end of the fiscal quarter (March 31, June 30, September 30, and December 31).

(i) Texas RE shall submit audited financial statements annually including supporting materials in a form provided by NERC no later than 150 days after the end of the fiscal year.

(j) NERC shall have the right to review from time to time, in reasonable intervals but no less than every three years, the financial records of Texas RE in order to ensure that the documentation fairly represents in all material respects appropriate funding under this Agreement.

(k) **Exhibit E** to this Agreement sets forth the mechanism through which Texas RE shall offset penalty monies it receives (other than penalty monies received from an operational function or division or affiliated entity) against its next year's annual budget for carrying out functions under this Agreement, and the mechanism by which Texas RE shall transmit to NERC any penalty monies received from an operational function or division or affiliated entity of Texas RE.

**9. Assignment.** This Agreement may be assigned by either Party only with the prior written consent of the other, which consent shall be granted or withheld in such non-assigning Party's sole discretion, subject to approval by the Commission. Any assignment under this Agreement shall not relieve a Party of its obligations, nor shall a Party's obligations be enlarged, in whole or in part, by reason thereof. Texas RE may not delegate in whole or in part its Delegated Authority to any other entity; provided, however, that nothing in this provision shall prohibit Texas RE from contracting with other entities to assist it in carrying out its Delegated Authority, provided Texas RE retains control and responsibility for such Delegated Authority.

**10. Default and Cure.** Upon a Breach, the non-breaching Party shall give written notice of such Breach to the breaching Party (the "Default Notice"). Subject to a suspension of the following deadlines as specified below, the breaching Party shall have thirty (30) calendar days from receipt of the Default Notice within which to cure such Breach; provided however, that if

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such Breach is not capable of cure within thirty (30) calendar days, the breaching Party shall commence such cure within thirty (30) calendar days after notice and continuously and diligently complete such cure within ninety (90) calendar days from receipt of the Default Notice; and, if cured within such time, the Breach specified in such notice shall cease to exist. Subject to the limitation specified in the following sentence, if a Breach is not cured as provided in this article, or if a Breach is not capable of being cured within the period provided for herein, the nonbreaching Party shall have the right to declare a default and terminate this Agreement by written notice at any time until cure occurs, and be relieved of any further obligation hereunder. The deadlines for cure and the right to declare a default and terminate this Agreement shall be suspended during the pendency of any efforts or proceedings in accordance with Section 17 of this Agreement to resolve a dispute as to whether a Breach has occurred. The provisions of this article will survive termination of this Agreement.

**11. Term and Termination.**

(a) This Agreement shall become effective ~~April 5, 2008~~ on \_\_\_\_\_, 2010, pursuant to the ~~March 21, 2008~~ \_\_\_\_\_, 2010 order of the Federal Energy Regulatory Commission (~~122( FERC 61,245).~~ \_\_\_\_\_).

(b) The initial term of the Agreement shall be ~~three (3) years~~ from the ~~original~~ effective date ~~of until~~ May ~~16, 2007, prior to which time NERC shall conduct an audit pursuant to subsections 6(e) and 7(i) to ensure that~~ 2, 2011. ~~So long as~~ Texas RE continues to meet all applicable statutory and regulatory requirements necessary to maintain its eligibility for delegation. ~~If Texas RE meets such requirements,~~ this Agreement may be renewed for another five (5) year term. If this Agreement is not renewed or becomes subject to termination for any reason, the Parties shall work to ensure a transition of Texas RE's Delegated Authority to NERC or to another eligible entity. The termination of this Agreement shall not take effect until such transition has been effected, unless the transition period exceeds one year, at which time Texas RE may unilaterally terminate.

(c) If any provision of this Agreement, or the application thereof to any person, entity or circumstance, is held by a court or regulatory authority of competent jurisdiction to be invalid, void, or unenforceable, or if a modification or condition to this Agreement is imposed by a regulatory authority exercising jurisdiction over this Agreement, the Parties shall endeavor in

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good faith to negotiate such amendment or amendments to this Agreement as will restore the relative benefits and obligations of the signatories under this Agreement immediately prior to such holding, modification or condition. If either Party finds such holding, modification or condition unacceptable and the Parties are unable to renegotiate a mutually acceptable resolution, either Party may unilaterally terminate this Agreement. Such termination shall be effective one year following written notice by either Party to the other Party and to the Commission, or at such other time as may be mutually agreed by Texas RE and NERC.

(d) Notwithstanding any termination of this Agreement, provisions contained in Limitation of Liability (Section 12), No Third Party Beneficiaries (Section 13) and Confidentiality (Section 14) shall survive this Agreement in accordance with their terms until sixty (60) days following the expiration of any applicable statute of limitations.

**12. Limitation of Liability.** Texas RE and NERC agree not to sue each other or their directors, officers, employees, and persons serving on their committees and subgroups based on any act or omission of any of the foregoing in the performance of duties pursuant to this Agreement or in conducting activities under the authority of Section 215 of the Act, other than seeking a review of such action or inaction by the Commission. NERC and Texas RE shall not be liable to one another for any damages whatsoever, including without limitation, direct, indirect, incidental, special, multiple, consequential (including attorneys' fees and litigation costs), exemplary, or punitive damages arising out of or resulting from any act or omission associated with the performance of the Texas RE's or NERC's responsibilities under this Agreement or in conducting activities under the authority of Section 215 of the Act, except to the extent that the Texas RE or NERC is found liable for gross negligence or intentional misconduct, in which case Texas RE or NERC shall not be liable for any indirect, incidental, special, multiple, consequential (including without limitation attorneys' fees and litigation costs), exemplary, or punitive damages.

**13. No Third Party Beneficiaries.** Nothing in this Agreement shall be construed to create any duty to, any standard of care with reference to, or any liability to any third party.

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**14. Confidentiality.** During the course of the Parties' performance under this Agreement, a Party may receive Confidential Information, as defined in Section 1500 of NERC's Rules of Procedure. Except as set forth herein, the Parties agree to keep in confidence and not to copy, disclose, or distribute any Confidential Information or any part thereof, without the prior written permission of the issuing Party, unless disclosure is required by subpoena, law, or other directive of a court, administrative agency, or arbitration panel, in which event the recipient hereby agrees to provide the Party that provided the Confidential Information with prompt notice of such request or requirement in order to enable such issuing Party to (a) seek an appropriate protective order or other remedy, (b) consult with the recipient with respect to taking steps to resist or narrow the scope of such request or legal process, or (c) waive compliance, in whole or in part, with the terms of this Section. In the event a protective order or other remedy is not obtained or ~~that~~the issuing Party waives compliance with the provisions, the recipient agrees to furnish only that portion of the Confidential Information which the recipient's counsel advises is legally required and to exercise best efforts to obtain assurance that confidential treatment will be accorded to such Confidential Information. In addition, each Party shall ensure that its officers, trustees directors, employees, subcontractors and subcontractors' employees, and agents to whom Confidential Information is exposed are under obligations of confidentiality that are at least as restrictive as those contained herein. This confidentiality provision does not prohibit reporting and disclosure as directed by NERC, as set forth in Section 6 of this Agreement.

**15. Amendment.** Neither this Agreement nor any of the terms hereof, may be amended unless such amendment is made in writing, signed by the Parties, and filed with and approved by the Commission.

**16. Amendments to the NERC Rules.** NERC shall not adopt amendments to the NERC Rules that conflict with the rights, obligations, or programs of Texas RE under this Agreement without first obtaining the consent of Texas RE, which consent shall not be unreasonably withheld or delayed. To the extent Texas RE does not consent, NERC shall have the right to invoke the dispute resolution provisions of Section 17 and, if such effort fails to resolve the dispute, to petition the Commission to adopt the amendment to the NERC Rules. To the extent that the Commission issues an order amending or materially affecting the rights or obligations of

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Texas RE under this Agreement, Texas RE shall have the option, exercisable no later than 60 days after issuance of such order, to terminate this Agreement. Such termination shall be effective one year following written notice by Texas RE to NERC and the Commission, or at such other time as may be mutually agreed by Texas RE and NERC.

**17. Dispute Resolution.** In the event a dispute arises under this Agreement between NERC and Texas RE, representatives of the Parties with authority to settle the dispute shall meet and confer in good faith in an effort to resolve the dispute in a timely manner. In the event the designated representatives are unable to resolve the dispute within thirty (30) days or such other period as the Parties may agree upon, each Party shall have all rights to pursue all remedies, except as expressly limited by the terms of this Agreement. Neither Party shall have the right to pursue other remedies until the Dispute Resolution procedures of this Section 17 have been exhausted. This Section 17 shall not apply to enforcement actions against individual entities.

**18. Notice.** Whether expressly so stated or not, all notices, demands, requests, and other communications required or permitted by or provided for in this Agreement shall be given in writing to a Party at the address set forth below, or at such other address as a Party shall designate for itself in writing in accordance with this Section, and shall be delivered by hand or reputable overnight courier:

If to NERC:  
North American Electric  
Reliability Corporation  
Suite #225  
116-390 Village Blvd.  
Princeton, NJ 08540-5721  
Attn: ~~David Nevius~~  
Facsimile: (609) 452-9550

If to Texas RE:  
Texas ~~Regional~~Reliability Entity, Inc.  
~~7620 Metro Center Drive~~2700 Via Fortuna,  
Austin, Texas ~~78744~~78746  
Attn: Larry Grimm,  
Chief Executive Officer ~~& CCO~~  
Facsimile: (512) 225-7165

**19. Governing Law.** When not in conflict with or preempted by federal law, this Agreement will be governed by and construed in accordance with the laws of New Jersey without giving effect to the conflict of law principles thereof. The Parties recognize and agree not to contest the exclusive or primary jurisdiction of the Commission to interpret and apply this Agreement;

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provided however that if the Commission declines to exercise or is precluded from exercising jurisdiction of any action arising out of or concerning this Agreement, such action shall be brought in any state or federal court of competent jurisdiction in New Jersey. All Parties hereby consent to the jurisdiction of any state or federal court of competent jurisdiction in New Jersey for the purpose of hearing and determining any action not heard and determined by the Commission.

20. **Headings.** The headings and captions in this Agreement are for convenience of reference only and shall not define, limit, or otherwise affect any of the terms or provisions hereof.

21. **Savings Clause.** Nothing in this Agreement shall be construed to preempt or limit any authority that Texas RE may have to adopt reliability requirements or take other actions to ensure reliability of the bulk power system within the geographic boundaries described in **Exhibit A** that are outside the authority delegated from NERC, as long as such reliability requirements and actions are not inconsistent with Reliability Standards applicable to the region described in **Exhibit A** and do not result in a lessening of reliability outside the region described in **Exhibit A**.

22. **Entire Agreement.** This Agreement constitutes the entire agreement, and supersedes all prior agreements and understandings, both written and oral, among the parties with respect to the subject matter of this Agreement.

24. **Execution of Counterparts.** This Agreement may be executed in counterparts and each shall have the same force and effect as the original.

**NOW THEREFORE**, the parties have caused this Agreement to be executed by its duly authorized representatives, effective as of the date first above written.

NORTH AMERICAN  
ENTITY ~~—A, INC~~  
ELECTRIC RELIABILITY CORPORATION

TEXAS ~~REGIONAL~~RELIABILITY  
~~DIVISION OF ELECTRIC~~  
RELIABILITY COUNCIL OF TEXAS,  
INC. \_\_\_\_\_

By: \_\_\_\_\_

By: \_\_\_\_\_

AMENDED AND RESTATED TEXAS ~~RE~~RELIABILITY ENTITY REGIONAL DELEGATION AGREEMENT APPROVED BY FERC EFFECTIVE JANUARY 3,

2009  
PAGE 16 of 17

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Name: Larry

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Grimm

Title: Executive Vice President  
Executive Officer &

Title: Chief

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Date: \_\_\_\_\_, 2009  
20092010

Chief Compliance Officer  
Date: \_\_\_\_\_,

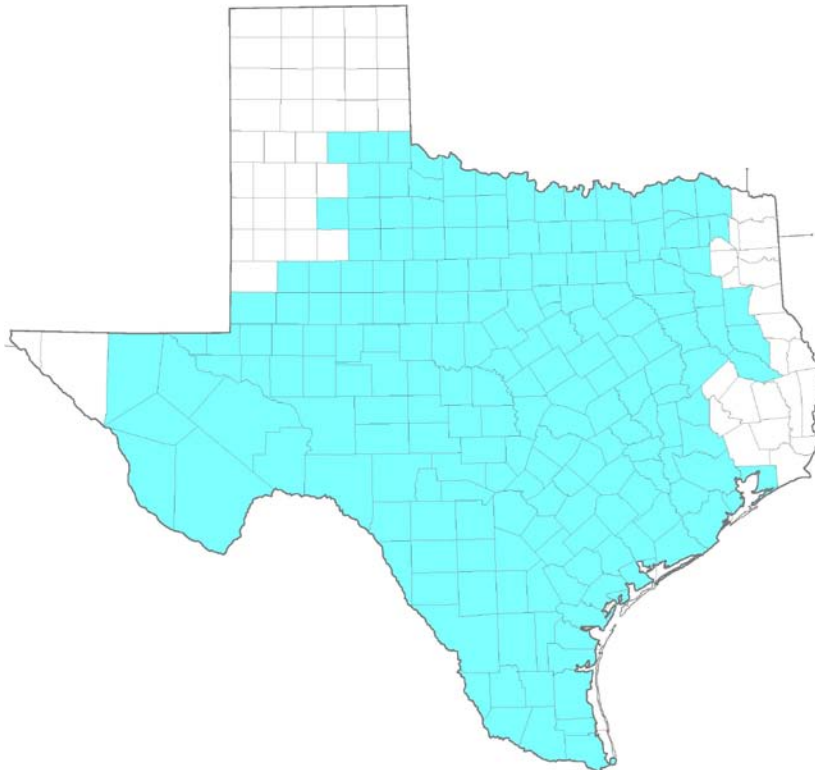
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**EXHIBIT A – REGIONAL BOUNDARIES**

The geographic boundary of Texas RE is the ERCOT Region, which is the geographic area and associated transmission and distribution facilities that are not synchronously interconnected with electric utilities operating outside the jurisdiction of the Public Utility Commission of Texas. The ERCOT Region does not interconnect synchronously across state lines to import or export power with neighboring reliability regions. The ERCOT geographic region includes 200,000 square miles, 85% of Texas load, and 75% of Texas land area (does not include the Panhandle, El Paso area, and 2 areas of East Texas). The ERCOT Region includes the following Texas cities and towns: Dallas, Ft. Worth, Houston, San Antonio, Austin, Paris, Tyler, Nacogdoches, Lufkin, Bryan, College Station, Corpus Christi, Harlingen, Brownsville, Laredo, Brownwood, San Angelo, Abilene, Midland, Odessa, Fort Stockton, Monahans, Snyder, Vernon, Wichita Falls, Denton, Garland, Greenville, Waco, Temple, Killeen, Weatherford, and Graham, as The ERCOT Region is generally indicated on the map below.



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## Exhibit B — Governance

**Exhibit B shall set forth the Regional Entity's bylaws, which NERC agrees demonstrates that the Regional Entity meets the following criteria:**

**CRITERION 1: The Regional Entity shall be governed by an independent board, a balanced stakeholder board, or a combination independent and balanced stakeholder board. (Federal Power Act § 215(e)(4)(A), 18 C.F.R. § 39.8(c)(1), Order No. 672 at ¶ 727.)**

~~A. Texas RE is governed by a combination independent and balanced stakeholder board.~~

~~B. Section 4.2 of Texas RE's bylaws (the bylaws of Electric Reliability Council of Texas, Inc.) specify that its board shall have 16 members, as follows:~~

~~A. Five (5) independent individuals who are unaffiliated with any electric market participant ("Unaffiliated Directors") who are each approved by the Public Utility Commission of Texas ("PUCT") for a three-year term;~~

~~B. Six (6) electric market participant representatives (plus a segment alternate for each such representative) from each of the following market segments: independent generators, investor-owned utilities, power marketers, retail electric providers, municipally owned utilities, and cooperatives;~~

~~C. Three (3) consumer representatives;~~

~~D. CEO of ERCOT (as ex officio voting Director); and~~

~~E. Chairman of the PUCT, as an ex officio non-voting Director.~~

~~C. Subsection 4.3 (b)(2) ii of Texas RE's bylaws define the requirements of "independence" as follows:~~

~~a. Unaffiliated Directors or family members (any spouse, parent, spouse of a parent, child or sibling, including step and adoptive relatives, and household member) shall not have current or recent ties (within the last two years) as a director, officer or employee of a Market Participant or its Affiliates.~~

~~b. Unaffiliated Directors or family members (any spouse, parent, spouse of a parent, child or sibling, including step and adoptive relatives and any household member) shall not have direct business relationships, other than retail customer relationships, with a Market Participant or its Affiliates.~~

~~c. To the extent that an Unaffiliated Director or family member (any spouse, parent, spouse of a parent, child or sibling, including step and adoptive relatives) living in the same household or any other household member owns stocks or bonds of Market Participants, these must be divested or placed in a blind trust prior to being seated on the Board."~~

~~d. Unaffiliated Directors shall not have any relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of an ERCOT board member, including the Delegated Authority.~~

~~D. Texas RE's bylaws achieve balance on the board because the board has representation from seven (7) segments (six (6) market segments plus consumer representatives) and five (5) independent directors, and Section 4.7 of the bylaws contains the following quorum and voting requirements:~~

~~Except as may be otherwise specifically provided by law, the Articles of Incorporation or these Bylaws, at all meetings of the Board, fifty percent (50%) of the seated Directors shall constitute a quorum for the transaction of business. The act of at least sixty-seven percent (67%) affirmative votes of the eligible voting Directors shall be the act of the Board, unless the act of a greater number is otherwise required by law, the Articles of Incorporation, or these Bylaws. If a quorum shall not be present at any meeting of the Board, the Directors present may adjourn the meeting.~~

**CRITERION 2: The Regional Entity has established rules that assure its independence of the users and owners and operators of the bulk power system, while assuring fair stakeholder representation in the selection of its directors.** Federal Power Act § 215(c)(2)(A) and (e)(4), 18 C.F.R. § 39.8(c)(2), Order No. 672 at ¶¶ 699, 700.)

~~A. Texas RE or its affiliate is an RTO or ISO and therefore a user, owner, or operator of bulk power system facilities. Article 6 and Section 7.2 of Texas RE's bylaws establish a strong separation between Texas RE's oversight and operations functions, as follows:~~

~~Section 6.1 TRE Responsibilities and Duties. The TRE shall be a functionally independent division within ERCOT which shall be responsible for proposing, developing, implementing and enforcing Reliability Standards in accordance with the Delegated Authority. The TRE shall also be responsible for investigating compliance with and enforcing violations of the ERCOT Protocols ("ERCOT Compliance"), so long as the ERCOT Compliance activities do not conflict with the Delegated Authority. The TRE shall develop policies, processes, standards, and procedures to implement the Delegated Authority and the ERCOT Compliance activities. The TRE shall form a Reliability Standards Committee ("RSC"), comprised of members from all ERCOT Segments, to propose, receive, consider, authorize, and vote on Reliability Standards and Reliability Variances, in accordance with the Texas Regional Entity Standards Development Process and procedures. All proposed ERCOT-specific Reliability Standards and Reliability Variances requests must be approved by the Board, prior to being submitted to NERC.~~

~~Section 6.2 TRE Independence. The TRE and its employees shall function independently of the other divisions, departments and employees~~

~~of ERCOT. TRE employees shall be responsible for creating and monitoring a separate budget to be submitted to the Board for approval and then to the North American Electric Reliability Corporation ("NERC") for approval, pursuant to a Delegation Agreement ("TRE Budget"). The portion of the TRE Budget which is for activities that are not related to the Delegated Authority but are for ERCOT Compliance activities will be approved by the PUCT. Except for ERCOT Compliance activities and any extraordinary activities that are specifically approved by NERC in the TRE Budget, the TRE shall be funded separately by NERC. The TRE shall (i) maintain separate books and records to account for its finances, separating income and expenditures for the Delegated Authority and the ERCOT Compliance Activities and (ii) pay a fair market rate for any goods and services obtained from ERCOT, or if a fair market rate is not readily determinable without undue effort or expense, at least the out-of-pocket cost incurred by ERCOT in respect thereof. The ERCOT acknowledges that the TRE Chief Compliance Officer and the TRE staff will conduct investigations into and will prosecute enforcement actions regarding the matters within the scope of the TRE's responsibilities and duties, including investigations and prosecutions of ERCOT.~~

~~Section 6.3 TRE Management. The business and affairs of the TRE shall be managed directly by the Board, or a subcommittee thereof, to insure independence of the TRE from the other ERCOT operations and activities, including the ERCOT Independent System Operator functions. The Board shall hire a Chief Compliance Officer ("CCO") who, under its supervision and direction, shall carry on the general affairs of the TRE as the chief executive officer. The CCO shall be independent of any market participant and shall be an independent member of the staff of ERCOT, reporting exclusively to the Board. The Board shall only hire a CCO after consulting the PUCT Commissioners and Executive Director, and obtaining the approval of the PUCT Executive Director. The Board may also appoint a financial director who will report to the CCO, with responsibility for overseeing the budgeting, finance and accounting functions necessary for the independent operation of the TRE. The TRE may retain outside advisors as it deems necessary. The CCO shall have the sole authority to retain or terminate such outside counsel and other advisors as the CCO may deem appropriate in his or her sole discretion. The CCO shall have the sole authority to approve related fees and retention terms for such advisors, in accordance with the TRE Budget. The CCO shall make an annual report and periodic reports to the Board concerning the activities and expenditures of the TRE, and the TRE shall have its separate financial statements reviewed or audited annually. The CCO shall ensure that the TRE files all required reports with NERC. CCO shall, in cooperation with the financial director of the TRE, monitor the expenditure of the monies received by the TRE to ensure that such are deployed in accordance with the TRE Budget, as approved by the Board and NERC.~~

~~Section 6.4 TRE Employees. To the fullest extent practicable under applicable law, the TRE and the CCO shall be responsible for hiring, firing and compensating all TRE employees. TRE employees shall be~~

~~compensated from the TRE budget. If permissible, and consistent with the Board's and CCO's compensation policies for the TRE employees, such employees may participate in insurance and other benefits extended to ERCOT employees, provided that the TRE reimburses ERCOT for the full cost of providing such benefits. The TRE is authorized to employ attorneys, and all such attorneys shall report to the CCO and shall have ethical and other obligations solely to the TRE and not to ERCOT. Such attorneys are expressly authorized and required to provide advice to the CCO and TRE regarding the Delegated Authority and ERCOT Compliance activities, including investigations and enforcement actions involving ERCOT. Such attorneys are specifically authorized to assist with the prosecution of enforcement actions relating to the Delegated Authority or ERCOT Compliance activities.~~

~~Section 6.5 Evaluation of TRE Performance. The Board shall monitor the TRE and CCO's performance, establish and review the CCO's compensation and provide annual, or at its election, more frequent, evaluations. The Board may receive and will consider input from the PUCT regarding the compliance and enforcement activities of the CCO and the TRE. It shall be the CCO's duty, in cooperation with the financial director of the TRE, to monitor the expenditure of the monies received by the TRE to ensure that such are deployed in accordance with the TRE Budget, as approved by the Board, PUCT and NERC. The Board will consider input from the PUCT regarding the compliance and enforcement activities and performance of the CCO and TRE. Neither the CCO nor any TRE employee may be retaliated against by ERCOT or its Board for investigating or participating in any enforcement activities pursuant to the Delegated Authority. The Board may not terminate, discipline, or demote the CCO or any TRE employees, advisors or contractors because of compliance or enforcement activities conducted in good faith.~~

~~Section 7.2 CCO. The Board shall hire a Chief Compliance Officer ("CCO") who, under the Board's supervision and direction shall carry on the affairs of the TRE. The CCO shall comply with all orders of the Board and will coordinate with the NERC regarding activities relating to the Delegated Authority and with PUCT regarding ERCOT Compliance activities. All employees and contractors of the TRE shall report and be responsible, to the CCO. The CCO shall be responsible for employment-related decisions for all employees of the TRE that are not appointed by the Board and shall provide input to the Board with respect to TRE employees appointed by the Board. The CCO shall perform such other duties as may be determined from time to time by the Board, for the benefit of the TRE. The Board may only terminate, discipline, not renew, or demote the CCO after consulting the PUCT Commissioners and Executive Director, and obtaining the approval of the PUCT Executive Director.~~

**CRITERION 3:** If the Regional Entity has members, the Regional Entity has established rules that assure that its membership is open, that it charges no more than a nominal membership fee and agrees to waive the fee for good cause shown, and that membership is not a condition for participating in the development of or voting on proposed Regional Reliability Standards. (Federal Power Act § 215(c)(2)(A) and (e)(4), 18 C.F.R. § 39.8(c)(2), Order No. 672 at ¶¶ 170-173.)

~~A. Texas RE has an open membership policy that permits full and fair participation of all stakeholders through their representatives, including in the development and voting on Regional Reliability Standards.~~

~~1. Membership Categories. Section 3.1 (a) of the Texas RE bylaws provides that members may qualify in one of the six market segments, if they have an actual financial interest in and are able to business in the ERCOT Region, or in the Consumer segment. Section 3.2 of the bylaws provides that members may qualify in one of three membership categories:~~

~~(a) Corporate Members shall have the rights and obligations as described in these Bylaws including the right to vote on all matters submitted to the general membership (such as election of Directors, election of TAC Representatives and amendments to the Articles of Incorporation and these Bylaws).~~

~~(b) Associate Members shall have the rights and obligations as described in these Bylaws excluding the right to vote on any matter submitted to the general Membership (such as election of Directors, election of TAC Representatives and amendments to the Articles of Incorporation and these Bylaws).~~

~~(c) Adjunct Members may be approved for Adjunct Membership by the Board if such entity does not meet the definitions and requirements to join as a Corporate or Associate Member. Adjunct Members shall have no right to vote on any matter submitted to the general Membership nor any right to be elected or appointed to the ERCOT Board, TAC or any subcommittee of the Board or TAC. Adjunct Members shall be bound by the same obligations as other Members of ERCOT.~~

~~2. Membership Obligations. Section 3.3 of the bylaws provides that, (a) each Member must comply with any applicable planning and operating criteria, procedures and guides adopted by or under the direction of the Board to maintain electric system reliability, coordinate planning and promote comparable access to the transmission system by all users, and (b) consistent with applicable laws and regulations, Members must share information at ERCOT's or TRE's request as necessary for the furtherance of ERCOT or TRE's activity and consistent with PUCT and NERC rules relating to confidentiality.~~

~~3. Full and Fair Participation. Section 3.6 of the bylaws provides that no Entity may simultaneously hold more than one Corporate Membership or more than one seat on the Board, TAC, or RSC and that members may join as a Corporate member in only one segment. Subsection 3.6(c) provides that each Corporate member in good standing is entitled to one vote on each matter submitted to a vote of the Corporate members.~~

~~The Texas Regional Entity Standards Development Process ("TRE SDP," see Exhibit D) provides for due process, openness, and balance in Standards development and modification.~~

~~Section IV of the TRE SDP provides that any person, acting as a representative of an organization which is directly and materially affected by the operation of ERCOT's Bulk Power System ("BPS") is allowed to request a Standard be developed or an existing Standard modified or deleted by creating a Standards Authorization Request (SAR). Section V of the TRE SDP provides that (1) any person representing an organization with a direct and material interest in the bulk power system has a right to participate in the standards development process by: a) expressing an opinion and its basis, b) having that position considered, and c) appealing any negative decision. Section V specifically provides that, "Participation is open to all organizations that are directly and materially affected by ERCOT's BPS [Bulk Power System] reliability. There shall be no undue financial barriers to participation. Participation shall not be conditioned upon membership in ERCOT, and shall not be unreasonably restricted on the basis of technical qualifications or other such requirements. Meetings of SDTs [Standards Drafting Teams] are open to ERCOT's Membership and to others and all proposed SARs and Standards are posted for comment on the Texas RE Website."~~

~~B. Texas RE charges no more than a nominal membership fee and agrees to waive the fee for good cause shown. Section 3.4 of the bylaws provides for the following fees:~~

~~Annual Member Service Fees for Corporate Members shall be \$2,000. Annual Member Service Fees for Associate Members shall be \$500. Annual Member Service Fees for Adjunct Members shall be \$500. The Annual Member Service Fees for Residential and Commercial Consumer Members shall be \$100 for Corporate Membership and \$50 for Associate Membership; provided that there will be no charge for Annual Member Service Fees for associations that qualify for Commercial Consumer Membership or for other associations or persons, upon good cause shown. Office of Public Utility Counsel ("OPUC") and the appointed Residential Consumer TAC Representative(s) shall be eligible to be Corporate Members without the payment of Annual Member Service Fees. Any Member may request that the Member's Annual Member Service Fees be waived for good cause shown.~~

**CRITERION 4: The Regional Entity has established rules that assure balance in its decision-making committees and subordinate organizational structures and assure no two industry sectors can control any action and no one industry sector can veto any action.** (Federal Power Act § 215(c)(2)(A) and (e)(4), 18 C.F.R. § 39.8(c)(2), Order No. 672 at ¶ 728.)

~~A. Texas RE's bylaws, procedural rules, and protocols assure balance in decision-making committees and subordinate organizational structures in how such groups are structured.~~

~~Section 6.1 of the bylaws provides that the Texas RE shall form a Reliability Standards Committee ("RSC"), comprised of members from all ERCOT Segments, to propose, consider and vote on Reliability Standards and Reliability Variances, in accordance with the Texas Regional Entity Standards Development Process and procedures. All proposed ERCOT-specific Reliability Standards and Reliability Variances requests and must be approved by the Board, prior to being submitted to NERC.~~

~~B. Texas RE's bylaws, procedural rules, and protocols assure balance in decision-making committees and subordinate organizational structures in how such groups make decisions.~~

~~Step 1 of the TRE SDP provides that any entity that is directly or materially impacted by the operation of the Bulk Power System within the geographical footprint of the ERCOT Region may request the development, modification, or deletion of an ERCOT Standard or Regional Variance. The RSC, comprised of the seven Segments, will consider and determine which requests will be assigned for development, modification, or deletion (Article II and Step 1 of the TRE SDP). Step 6A of the TRE SDP provides that all members may vote on proposed new standards, standard revisions, or standard deletions ("Standards" herein), and at least one member from five of the seven segments must vote to constitute a quorum. Step 6A further provides that each Segment shall receive one Segment Vote, the representative of each voting member shall receive an equal fraction of its Segment Vote, and if a draft Standard receives 4.67 affirmative votes during the 15 day voting period, the RSC will forward the Standard to the board for a vote. Step 6B of the TRE SDP provides that, if a Standard does not timely receive 4.67 affirmative votes, the Standard may be remanded for further work and reposted for a second comment period before a second vote. The board may approve, remand to RSC or disapprove a proposed Standard.~~

~~C. Texas RE's bylaws, procedural rules, and protocols assure no two industry sectors can control any action and no one industry sector can veto any action. The RSC is comprised of representatives from each Segment. The TRE SDP requires five (5) of the seven (7) Segments to constitute a quorum for a vote on a proposed Standard. (Step 6A of TRE SDP). Even if a proposed Standard does not receive a 4.67 or greater affirmative vote during a second voting period, the RSC will forward the Standard and implementation plan to the board.~~

**CRITERION 5:** The Regional Entity has established rules that provide reasonable notice and opportunity for public comment, due process, openness, and balance of interests in exercising its duties. (Federal Power Act § 215(c)(2)(D) and (e)(4), 18 C.F.R. § 39.8(c)(2).)

~~Texas RE's bylaws, procedural rules, and protocols provide reasonable notice and opportunity for public comment, due process, openness, and balance of interests in exercising its duties, as follows:~~

~~A. Notice of Meetings. Section 4.6(a) of the bylaws requires the board to meet at least quarterly, with at least one meeting occurring in conjunction with the annual meeting of the members. Section 4.6(b) requires notice of any meeting of the board or any board subcommittee where at least one board director is present be given to each Director and made available electronically to the public on the Internet not less than one week before the date of the meeting; provided, however, the board may meet on urgent matters on such shorter notice, not less than 2 hours, as the person or persons calling such meeting reasonably may deem necessary or appropriate for urgent matters (emergency conditions threatening public health or safety, or a reasonably unforeseen situation). Section 4.6 (e) also provides that notice of the agenda, place, date, and hour of any meeting of the RSC be made available electronically to the public on the Internet not less than one week before the date of the meeting; provided that, RSC may meet on urgent matters on such shorter notice, not less than 2 hours, in the event of urgent matters.~~



~~B. Public Meetings. Section 4.6(e) of the bylaws requires that meetings of the board or board subcommittees be open to the public, although they, at their discretion, exclude any persons who are not directors from any meeting or portion of any meeting held in Executive Session, including for purposes of voting. Executive session is limited to matters involving sensitive matters including, but, confidential personnel information, contracts, lawsuits, deliberation of purchase of real property, competitively sensitive information, deployment or implementation of security devices or other information related to the security of ERCOT's regional electrical network and discussion of any matters on which the Board receives legal advice from its attorneys. Section 4.6(d) of the bylaws requires the board to promulgate procedures allowing public access to meetings of the board and board subcommittees and allowing for members of the public to provide comment on the matters under discussion at public portions of meetings of the board and subcommittees.~~

~~C. Available Minutes. Section 4.6(f) of the bylaws requires the Secretary to keep minutes for all Board meetings.~~

~~D. Bylaws Amendment. Section 13.1 (d) (4) of the bylaws provides that an affirmative vote by at least four of the seven Segments is necessary to amend the bylaws, and, if permission for any amendment is required by NERC or FERC under the Delegation Agreement, the required permission must be obtained before such amendment is effective.~~

**BYLAWS**  
**OF**  
**TEXAS RELIABILITY ENTITY, INC.**

(A Texas Non-Profit Corporation)

January 18, 2010

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## **ARTICLE I. DEFINITIONS**

**Section 1. Definitions.** The capitalized terms used in these Bylaws of Texas Reliability Entity, Inc. (the "Corporation" or "Texas RE"), shall have the meanings set forth below, or if not set forth below, shall have the meanings given them in the NERC Rules of Procedure.

(a) "Affiliate" means any entity controlling, controlled by or under common control with the entity under consideration, and includes any entity (i.e., any commercial enterprise) in any of the following relationships: (i) an entity that directly or indirectly owns or holds at least five percent of the voting securities of another entity, (ii) an entity in a chain of successive ownership of at least five percent of the voting securities of another entity, (iii) an entity which shares a common parent with or is under common influence or control with another entity or (iv) an entity that actually exercises substantial influence or control over the policies and actions of another entity. Evidence of influence or control shall include the possession, directly or indirectly, of the power to direct or cause the direction of the management and/or policies and procedures of another, whether that power is established through ownership or voting of at least five percent of the voting securities or by any other direct or indirect means. In cases where the level of control or influence is disputed, the Board shall have discretion to determine whether or not the entities are Affiliates of one another. Membership in Texas RE shall not create an affiliation with Texas RE.

(b) "Board" means the Board of Directors of the Corporation.

(c) "Bulk Power System" or "BPS" means facilities and control systems necessary for operating an interconnected electric energy transmission network (or any portion thereof) and facilities generating electric energy as needed to maintain transmission system reliability, but does not include facilities used in the local distribution of electricity.

(d) "Commission" or "FERC" means the Federal Energy Regulatory Commission.

(e) "Delegated Authority" means the authority delegated by NERC to the Corporation to propose and enforce NERC Reliability Standards and perform other reliability-related activities in the ERCOT Region under the Delegation Agreement executed by NERC and the Corporation and approved by FERC, pursuant to Section 215 of the Federal Power Act (16 U.S.C. §824n).

(f) "Delegation Agreement" means the agreement between the Corporation and NERC and approved by the Commission which describes the Delegated Authority and may be amended from time to time.

(g) "Electric Reliability Organization" or "ERO" means the organization that is certified by the Commission pursuant to Section 39.3 of its regulations, and has received recognition by appropriate regulatory authorities in Canada and Mexico, as applicable, to establish and enforce Reliability Standards for the Bulk Power Systems of the respective countries and that has entered into a delegation agreement with the Corporation pursuant to which the Electric Reliability Organization delegates enforcement authority for Reliability Standards for the Bulk Power System in the ERCOT Region. NERC was certified as the ERO on July 20, 2006.

(h) “ERCOT Region” means the geographic area and associated transmission and distribution facilities that are not synchronously interconnected with electric utilities operating outside the jurisdiction of the Public Utility Commission of Texas.

(i) “Independent Director” means a person who is not (a) an officer or employee of the Corporation; (b) a NERC Registered Entity or Member or an officer, director, or employee of a Member of the Corporation; or (c) an officer, director, or employee of any company or entity that would reasonably be perceived as having a direct financial interest in the outcome of Board decisions or having a relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of a Director, as more specifically described in Article IV of these Bylaws.

(j) “Initial Director” means a Director named in the Certificate of Formation and seated for formation of the Corporation.

(k) “Member” means a member of the Corporation pursuant to Article III of these Bylaws.

(l) “NERC” means North American Electric Reliability Corporation, the entity certified by FERC as the ERO on July 20, 2006.

(m) “NERC Rules of Procedure” means the Rules of Procedure that are adopted by NERC and approved by the Commission.

(n) “PUCT” means the Public Utility Commission of Texas.

(o) “OPUC” means the Texas Office of Public Utility Counsel.

(p) “Regional Entity” means an entity with a Delegation Agreement with NERC, as ERO, including the following organizations, in addition to Texas Reliability Entity: Florida Reliability Coordinating Council (FRCC), Midwest Reliability Organization (MRO), Northeast Power Coordinating Council (NPCC), ReliabilityFirst Corporation (RFC), Southeastern Electric Reliability Council (SERC), Southwest Power Pool (SPP), and Western Electricity Coordinating Council (WECC).

(q) “Regional Reliability Standard” means a standard for the ERCOT Region that is proposed and approved in accordance with the Texas RE Standards Development Process, as set forth in Exhibit C to the Delegation Agreement, and either, (i) sets more stringent reliability requirements than a national Reliability Standard, or (ii) covers matters not covered by a national Reliability Standard.

(r) “Registered Entity” means an entity that is registered with NERC and listed on the NERC Compliance Registry (available at [www.nerc.com](http://www.nerc.com)).

(s) “Reliability Standard” means a requirement to provide for Reliable Operation of the Bulk-Power System, which is approved by NERC and the Commission, pursuant to Section 215 of the Federal Power Act and all amendments thereto. This term includes requirements for the operation of existing Bulk-Power System facilities, including cybersecurity protection, and the design of planned additions or modifications to such facilities to the extent necessary to provide for Reliable Operation of the Bulk-Power System.

(t) “Reliable Operation” means operating the elements of the Bulk Power System within equipment and electric system thermal, voltage, and stability limits so that instability, uncontrolled separation, or cascading failures of the Bulk Power System will not occur as a result of a sudden disturbance, including a cybersecurity incident, or unanticipated failure of system elements.

(u) “Sector” means a group of Members of the Corporation that are Bulk Power System owners, operators, or users, as defined in Article III, Section 4 of these Bylaws. Each Sector shall constitute a class of Members for purposes of Chapter 22 (Nonprofit Corporations) of the Texas Business Organizations Code.

## **ARTICLE II. PURPOSE**

**Section 1. General Purpose.** The purpose of the Corporation is to preserve and enhance reliability in the ERCOT Region. In furtherance of this goal, the Corporation will:

(a) Perform Reliability Standards development, compliance monitoring, compliance enforcement, and other related activities as a Regional Entity, pursuant to 16 U.S.C. §824n, in accordance with the Corporation’s Delegation Agreement with NERC;

(b) Carry out other activities as set forth in the Delegation Agreement, the NERC Rules of Procedure, or as otherwise required or requested by NERC, in support of the Delegated Authority, including but not limited to organization registration and certification, reliability assessment and performance analysis, training and education, and situational awareness and infrastructure security; and

(c) Engage in any other lawful act or activity that is not in conflict with the Corporation’s duties as a Regional Entity and for which non-profit corporations may be organized under the Texas Business Organizations Code.

**Section 2. Non-Profit Corporation.** The Corporation is a Texas non-profit corporation.

**Section 3. Geographic Area.** The Corporation will perform its operations primarily within the ERCOT Region. The ERCOT Region includes 200,000 square miles, 85% of Texas load, and 75% of Texas land area (does not include the Panhandle, El Paso area, and 2 areas of East Texas). The ERCOT Region includes the following Texas cities and towns: Dallas, Ft. Worth, Houston, San Antonio, Austin, Paris, Tyler, Nacogdoches, Lufkin, Bryan, College Station, Corpus Christi, Harlingen, Brownsville, Laredo, Brownwood, San Angelo, Abilene, Midland, Odessa, Fort Stockton, Monahans, Snyder, Vernon, Wichita Falls, Denton, Garland, Greenville, Waco, Temple, Killeen, Weatherford, and Graham, and does not interconnect synchronously across state lines to import or export power with neighboring reliability regions.

## **ARTICLE III. MEMBERSHIP**

**Section 1. Members.** The Corporation is a membership corporation. Membership in the Corporation is voluntary and is open only to any entity that is a user, owner or operator of the ERCOT Region Bulk Power System, registers with the Corporation as a Member, maintains its registration in accordance with this Article III, and complies with the other conditions and obligations of membership specified in these Bylaws. All Members must qualify and be registered in one of the Sectors defined in Article III, Section 4. Membership in the Corporation is not a condition to participating in the development or consideration of proposed Regional Standards.

**Section 2. Registration as a Member.** Any entity that is eligible to be a Member of the Corporation in accordance with Article III, Section 1 may become a Member by completing and submitting to the secretary of the Corporation a membership registration on a form prescribed by the Corporation. The Member shall designate one representative and an alternative representative with authority to receive notices, cast votes, and execute waivers and consents on behalf of the Member. The secretary of the Corporation shall maintain a current roster of the Members of the Corporation including each Member's designated representative and alternative representative. From time to time, the Board shall establish a date by which Members shall submit their registration renewals. All Members shall be required to renew their registrations annually and within 30 calendar days of a request by an officer of the Corporation, using a registration renewal form prescribed by the Corporation. The secretary of the Corporation shall remove from the roster of Members of the Corporation any Member that has not submitted a registration renewal within 30 days following a date established by the Corporation. The secretary shall inform any Member that is removed from the roster of Members of such removal, by sending notice to such former Member's last known address on the records of the Corporation.

### **Section 3. Obligations and Conditions of Membership.**

(a) Members must agree to promote, support, and comply with Reliability Standards, and assist the Corporation in its compliance with the terms and provisions of the Corporation's Delegation Agreement with NERC. Each Member shall agree, in writing, to accept the responsibility to comply with policies of NERC and the Corporation as set forth in their respective certificates of formation, bylaws, rules of procedure, and Reliability Standards, as applicable, as from time to time adopted, approved, or amended.

(b) As an additional condition of membership in the Corporation, each Member shall be required to execute an agreement with the Corporation, in a form to be specified by the Corporation, that such entity will hold all Directors, officers, employees, and agents of the Corporation, as well as volunteers participating in good faith in the activities of the Corporation, harmless for any injury or damage caused by any act or omission of any director, officer, employee, agent, or volunteer in the course of performance of his or her duties on behalf of the Corporation, other than for willful acts of misconduct.

(c) Consistent with applicable laws and regulations, Members must share nonproprietary information at the Corporation's request as necessary for the furtherance of the Corporation's activities and consistent with NERC, PUCT, or any other applicable rules relating to confidentiality.

**Section 4. Membership Sectors.** Each Member shall elect to be assigned to one of the following membership Sectors:

(a) **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).

(b) **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.

(c) **Cooperative:** 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 and is registered with NERC for at least one reliability function.

(d) **Municipal Utility:** A municipally owned utility as defined in PURA §11.003 and is registered with NERC for at least one reliability function.

(e) **Generation:** An entity that is registered with NERC as a Generator Owner (GO) or Generator Operator (GOP).

(f) **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.

**Section 5. Participation.**

(a) There is only one level of Membership, and no company or entity may simultaneously hold more than one Membership.

(b) Members must qualify in and join a Sector.

(c) A Member that is eligible for more than one Sector may join only one Sector and it must be the most appropriate Sector for its business. Any disputes regarding appropriateness of a Member's Sector will be decided by a majority vote of the Board.

(d) A company or entity that is an Affiliate of a Member may hold a separate membership in a different Sector, so long as the legal entities have different NERC Compliance Registry Numbers under which they are currently registered for the applicable NERC reliability function.

(e) A Member must continue to vote in the same Sector for a minimum of the remainder of the fiscal year in which it becomes a Member or until it is no longer eligible to remain in such Sector, and it must give notice to the Corporate secretary when it elects or is required to change Sectors.

(f) The Board may review the Sector qualification of any Member and may determine that a Member does not qualify for, and require them to change Sectors.

(g) A Member which is no longer eligible or not in good standing may not vote on any matters that require membership.

**Section 6. Membership Fees.** Members must pay an annual Membership Fee of \$250, to offset the expenses of membership qualification, coordination, and meetings, unless the Board waives the fee for any Member for good cause shown. The Board may agree to change the amount or frequency of the Membership Fee, from time to time, by majority vote.

**Section 7. Term of Membership.** Membership in the Corporation must be renewed on an annual basis and will only be retained as long as a Member meets its respective qualifications, obligations, and conditions of membership as set forth in these Bylaws. Membership is conditioned on the annual payment of Membership Fees, unless the Membership Fees are waived by the Board for good cause shown, as determined in the Board's sole discretion.

**Section 8. Removal.** No Member or Member representative may be sanctioned, expelled or suspended and no membership in the Corporation may be terminated or suspended except pursuant to a procedure that is fair and reasonable and is carried out in good faith. The Board may, by resolution, establish a procedure to terminate, expel, suspend, or sanction a Member following notice to the Member and exercise of appropriate due process procedures and a determination by the Board in its sole discretion that in its judgment the Member has violated its obligations and responsibilities to the Corporation. In the event that the Board does not adopt procedures, the following procedures shall apply:

(a) Written notice. Written notice of intent to terminate, expel, suspend or sanction a Member shall be delivered at least twenty (20) days in advance of the date when a hearing will be held to determine whether the Member shall be expelled, suspended, terminated or sanctioned. Such notice shall set forth the reasons therefore. Said notice must be given by facsimile (receipt confirmed), e-mail (receipt confirmed) or first class or certified mail sent to the last address of the Member to be expelled, suspended, terminated or sanctioned, as shown in the Corporation's records.

(b) Hearing. An opportunity shall be provided for the Member receiving such notice to be heard by the Board at the hearing, orally and in writing. The Member shall be entitled to have counsel present, and to participate in the hearing, at its own expense, and to present and cross-examine any witnesses.

(c) Liability. A Member which has been sanctioned, expelled, terminated or suspended shall remain liable to the Corporation for fees as a result of obligations incurred or commitments made prior to sanction, expulsion, termination or suspension.

(d) Challenges. Any proceeding challenging an expulsion, suspension, sanction or termination, including a proceeding in which defective notice is alleged, may be submitted to the Board in writing within one year after the effective date of the expulsion, suspension, sanction or termination. If the Board determines to hear such challenge, it shall notify the Member and such proceeding will be subject to the hearing requirements described in subsection (b) above of this Section 8.

**Section 9. Resignation.** Any other provision of these Bylaws notwithstanding, any Member may withdraw from participation in the activities of the Corporation at any time upon written notice to the chief executive officer or president of the Corporation, whereupon it



shall cease to be a Member, and its representatives shall cease to be entitled or obligated to participate in the activities of the Board or any activities requiring membership.

**Section 10. Reinstatement.** A former Member may submit a written request for reinstatement of Membership. The Board will reinstate the Membership unless the entity does not meet the Membership qualifications set forth in these Bylaws.

#### **ARTICLE IV. BOARD OF DIRECTORS**

**Section 1. Board of Directors.** The business and affairs of the Corporation shall be managed by the Board. The Board shall consist of (i) four (4) Independent Directors who are nominated and elected in accordance with the requirements and procedures specified in this Article IV (the "Independent Directors"); (ii) the Chairman of the PUCT or another PUCT Commissioner designated by the Chairman, as an *ex officio* non-voting member; (iii) Texas Public Counsel, from OPUC (or another employee of OPUC designated by Texas Public Counsel), as an *ex officio* non-voting member, representing the interests of residential and small commercial electricity consumers; (iv) the CEO of the Corporation as a voting member (the "Management Director"); (v) the chair of the Member Representatives Committee as a voting member; and (vi) the vice chair of the Member Representatives Committee as a voting member. The Directors who are the chair and vice chair of the Member Representatives Committee will be collectively referred to herein as "Affiliated Directors." Each Director, including the Affiliated Directors and excluding the non-voting members of the Board, shall have one (1) vote on any matter brought before the Board for a vote. All Directors are expected to serve the public interest and to represent the reliability concerns of the entire ERCOT Region Bulk Power System.

**Section 2. Independent Directors.** The Independent Directors shall be elected, shall have the qualifications specified, and shall serve in the manner provided in this Section.

(a) Qualifications:

(1) Experience in one or more of these fields: senior corporate leadership; professional disciplines of finance, accounting, engineering, bulk power systems, or law; regulation of utilities; and/or risk management.

(2) Independence of any NERC registered entity, including ERCOT ISO, and any ERCOT Region Market Participant. Requirements of independence include but are not limited to the following:

(i) Independent Directors and the immediate family (any spouse, mother, father, sibling, or dependent, and any spouse of mother, father, or sibling and including any step and adoptive parents, siblings or children) and household members of Independent Directors and their spouses shall not have current or recent status (within the last two years) as a director, officer or employee of an ERCOT Region NERC Registered Entity or ERCOT Region Market Participant.

(ii) Independent Directors and immediate family and household members of Independent Directors shall not have current status as a director, officer or employee of a non-ERCOT Region NERC Registered Entity.

(iii) Independent Directors and immediate family and household members of Independent Directors shall not have direct business relationships, other than retail customer relationships, with any NERC Registered Entity or Market Participant.

(iv) To the extent that an Independent Director or his or her spouse, dependent child, or any other household member owns stocks or bonds of NERC Registered Entities or Market Participants, these must be divested or placed in a blind trust prior to being seated on the Board.

(v) Independent Directors shall not have any relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of a Board member, including the Delegated Authority.

(vi) Other criteria as approved by the Board.

(b) Term. Except for the Initial and originally elected Directors, the term for Independent Directors shall be staggered three year terms. An Independent Director may be elected for up to three consecutive terms. Notwithstanding the foregoing, the Directors named as Initial Directors will serve only until the first membership meeting of the Corporation at which Independent Directors are elected. If an Initial Director is qualified to be an Independent Director and elected by the membership, such Director's term as an Initial Director shall not be counted for purposes of term limits. For the originally elected Independent Directors, two positions will have three year terms, one position will have a two year term, and one position will have a one year term. The term for the Affiliated Directors who are chair and vice chair of the Member Representatives Committee shall be one year, and the terms of the *ex officio* Directors will not expire.

(c) Selection.

(1) Except for the selection of the Initial Directors, the Board shall appoint, on an annual basis, or more frequently if needed in the event of a special election pursuant to this subsection, a nominating committee (the "Nominating Committee") to recommend candidates (i) to succeed the Independent Directors whose terms expire during the current year and (ii) to serve the remainder of the term of any Independent Director who ceased to serve as a Director subsequent to the last annual election of Directors. Except for the original Nominating Committee appointed by the Initial Directors ("Initial Nominating Committee"), the Nominating Committee shall consist of all Independent Directors except those whose terms expire during the current year and are seeking re-election and Affiliated Directors and such other persons with such qualifications as the Board shall specify (provided that such other persons may not vote), provided that the Independent Directors shall constitute a majority of the voting members of the Nominating Committee. The Initial Nominating Committee will consist of the Initial Directors except the Management Director (as defined in Article IV, Section 3), and at least two other persons selected by these Initial Directors to represent the interests of the Membership. The PUCT Chair may choose to participate on the Nominating Committee. If any Nominating Committee should have only two eligible Independent Directors for any reason, the requirement that Independent Directors must constitute a majority of the voting members will be removed to allow both Affiliated Directors to participate on the Nominating Committee. The Nominating Committee may retain an executive search

firm to locate and present candidates with the required qualifications, as set forth in Article IV, Section 2(a).

(2) The Nominating Committee shall interview the qualified candidates and select and nominate, by at least a two-thirds majority, qualified candidate(s), consistent with the objectives that the Board as an entirety shall reflect expertise in the areas of technical electric operations and reliability, legal, senior corporate leadership, financial, risk management, and regulatory matters, and familiarity with regional system operation issues in the ERCOT Region, to present to the Membership for its approval.

(3) The Membership shall vote by Sector as described in Article V in favor or against the proposed Independent Director(s). A proposed Independent Director who is approved by a majority of the Sectors shall become an Independent Director.

(d) Director Voting Weights. All voting Directors shall have a single vote each.

(e) Alternates and Proxies. Independent Directors may designate another Independent Director as a proxy if unable to attend a Board meeting. Ex officio Directors may designate a selected proxy or an alternate representative who may attend meetings in the absence of such Director. The chair and vice chair of the Member Representatives Committee may designate each other or may designate an Independent Director as their proxy if unable to attend a Board meeting.

**Section 3. Appointment of Management Director.** The president and chief executive officer (CEO) of the Corporation shall serve as the Management Director of the Corporation, effective as of the date of his or her appointment by the Board as CEO of the Corporation in accordance with these Bylaws, to serve until such time that he or she ceases to hold the position of CEO. No action of the Members of the Corporation shall be required in connection with the appointment of the CEO as the Management Director of the Corporation.

**Section 4. Chair and Vice Chair.** Annually, the Board shall elect from the Board's membership, by resolution of the Board, a Chair and a Vice Chair. The Chair and Vice Chair shall each be one of the Independent Directors.

**Section 5. Vacancies and Removal.**

(a) Should any vacancy on the Board arise from the death, resignation, retirement, disqualification, or removal from office of any Director, or from any other cause, such vacancy shall be filled as follows:

(1) For an Independent Director, by the election of a new Independent Director at the next annual election of Directors to fill the remainder, if any, of the term of the departed Independent Director. provided, that the Board by resolution may in its discretion call a special election to fill any such vacancy for the remainder, if any, of the term of the departed Independent Director.

(2) For the Management Director, by the appointment of a new CEO or interim CEO to fill the vacancy.

(3) For an ex officio Director, by the appointment of a new PUCT Chair or Texas Public Counsel by whomever had the right to appoint such Director.

(4) For an Affiliated Director, by the election of a new chair or vice chair, as applicable, by the Member Representative Committee.

(b) A Director may be removed with or without cause at any time by whomever had the right to appoint such Director (for ex officio Directors), or for the elected Independent Directors, by an affirmative vote of sixty percent (60%) of the Members. In addition, the Board may remove any voting Director for cause, upon at least seventy-five percent (75%) affirmative votes of the eligible, remaining voting Directors. The right to elect Directors may not be assigned, sold, pledged or transferred in any manner.

**Section 6. Committees of the Board.** The Board shall by resolution create and appoint all committees of the Board as the Board deems necessary to perform its responsibilities. All committees of the Board shall have such duties as are prescribed and delegated by the Board. Committees to which any of the authority of the Board to manage the Corporation is delegated must have at least two Directors, and a majority of the members of the committee must be Directors.

## **ARTICLE V. MEETINGS OF MEMBERS OF THE CORPORATION**

### **Section 1. Annual and Other Meetings of Members.**

(a) An annual meeting of the Members to elect Directors and to conduct such other business as may come before the meeting shall be held on or about December 1 of each year or as soon thereafter as is reasonably practicable.

(b) Meetings of Members of the Corporation may be called for any purpose or purposes by resolution of the Board, by the chair of the Board, the CEO or the secretary of the Corporation, or by a number of Members constituting at least ten (10) percent of all Members on the roster of Members maintained by the secretary of the Corporation, which number shall include Members in at least three of the Sectors. Meetings of Members shall be held at the principal office of the Corporation or at such other place fixed by the Board as shall be specified in the notice of meeting. Meetings shall be called upon written notice of the time, date, place, and purposes of the meeting given to all Members on the roster of Members maintained by the secretary of the Corporation not less than ten (10) nor more than sixty (60) days prior to the date of the meeting. Only Members in good standing with the Corporation, as determined by the Board, have the right to vote at any meeting of the Members. Further, if at any point a Member no longer meets the qualifications for the Sector of which it is a member, the Entity may immediately elect to become a member in any Sector for which it does qualify.

### **Section 2. Quorum and Voting Requirements for Meetings of Members.**

(a) At any meeting of the Members of the Corporation, attendance in person or by proxy by a majority of the Members in each of at least two-thirds of the Sectors on the roster of Members maintained by the secretary of the Corporation shall constitute a quorum.

(b) Except as otherwise expressly provided in the Corporation's Certificate of Formation, these Bylaws, or applicable law, Members shall vote by Sector and each Sector shall have one vote.

(c) Except as otherwise expressly provided in the Corporation's Certificate of Formation, these Bylaws or applicable law, actions by the Members of the Corporation shall be approved upon receipt of the affirmative vote of a majority of the Sectors of the Corporation at a meeting at which a quorum is present, in person or by proxy. Each Sector's vote shall be determined by the affirmative vote of a majority of the members of the Sector voting at the meeting.

**Section 3. Waivers of Notice of Meetings of Members and Member Meeting Adjournments.** Notice of a meeting of Members need not be given to any Member who signs a waiver of notice, in person or by proxy, whether before, during, or after the meeting. The attendance of any Member at a meeting, in person or by proxy, without protesting prior to the conclusion of the meeting the lack of proper notice of such meeting, shall constitute a waiver of notice of the meeting by such Member. When any meeting of Members is adjourned to another time or place, it shall not be necessary to give notice of the adjourned meeting if the time and place to which the meeting is adjourned are announced at the meeting at which the adjournment is taken, and if at the adjourned meeting only such business is transacted as might have been transacted at the original meeting.

**Section 4. Action Without a Meeting of Members.** Any action, required or permitted to be taken at a meeting of Members, may be taken without a meeting if the proposed action is posted to all Members (via email to an email distribution list to which Members may subscribe and by posting on the Corporation website) and consented to in writing by the minimum number of Members that would be required to approve the action at a meeting of the Members at which all Members were present. The voting in such a circumstance shall be performed in writing, including via email or other electronic means. The Members shall receive written notice of the results within ten (10) days of the action vote, and all written responses of the Members shall be filed with the Corporate records. The results of such voting will be posted on the Corporation's website.

**Section 5. Meetings of the Members to be Open.** Notice to the public of the dates, places, and times of meetings of the Members, and all non-confidential material provided to the Members, shall be posted on the Corporation's website at approximately the same time that notice is given to the Members. Meetings of the Members shall be open to the public, subject to reasonable limitations due to the availability and size of meeting facilities; provided, that the meeting may be held in or adjourned to closed session to discuss matters of a confidential nature, including but not limited to compliance and enforcement matters, personnel matters, litigation, or commercially sensitive or critical infrastructure information of the Corporation or any other entity. The results of any action taken without a meeting, as described above, will be posted on the Corporation's website.

## **ARTICLE VI. MEETINGS OF THE BOARD OF DIRECTORS**

**Section 1. Regular Meetings of the Board.** Regular meetings of the Board shall be held at least quarterly. By resolution adopted at any meeting of the Board, the Board may provide for additional regular meetings that may be held as needed.

**Section 2. Special Meetings of the Board.** Special meetings of the Board for any purpose or purposes may be called at any time by the chair or by any two Directors. Such meetings may be held upon notice given to all Directors not less than three (3) days prior to the date of the meeting. Such notice shall specify the time, date, place, and purpose or purposes of

the meeting and may be given by telephone, email or other electronic media, or by express delivery.

**Section 3. Quorum and Voting Requirements for Meetings of the Board.**

The Board consisting of the Initial Directors (“Initial Board”) may conduct only organizational business of the corporation, including but not limited to approving these Bylaws, authorizing the opening of a bank account, appointing officers, approving the Delegation Agreement and reviewing and approving the Corporation’s business plan and budget. The quorum necessary for transaction of business by the Initial Board shall be a majority of the Initial Directors, either in person or by proxy, at meetings at which a quorum is present. Thereafter, unless otherwise expressly provided in the Corporation’s Certificate of Formation, these Bylaws or applicable law, (i) the quorum necessary for the transaction of business at meetings of the Board shall be a majority of the voting Directors in person or by proxy and at least three Independent Directors, and (ii) actions by the Board shall be deemed approved upon receipt of the affirmative vote of a majority of the Directors present and voting in person or by proxy at a meeting at which a quorum is present but in no case less than four votes.

**Section 4. Meetings of the Board to be Open.**

Notice to the public of the dates, places, and times of meetings of the Board, and all non-confidential material provided to the Board, shall be posted on the Corporation’s website at approximately the same time that notice or such material is given to the Directors and at least ten (10) business days prior to the scheduled meeting; provided however that the Board may meet on urgent matters on such shorter notice, not less than two (2) hours, as the person(s) calling such meeting may deem necessary or appropriate for urgent matters (emergency conditions threatening health or safety or a reasonably unforeseen situation). Meetings of the Board shall be open to the public, subject to reasonable limitations due to the availability and size of meeting facilities; provided, that the Board may meet in or adjourn to closed session to discuss matters of a confidential nature, including but not limited to compliance and enforcement matters, personnel matters, litigation, or commercially sensitive or critical infrastructure information of the Corporation or any other entity. Any or all of the Directors or members of a Board committee, may participate in a meeting of the Board, or a meeting of a committee, in person or by proxy, by means of any communications system by which all persons participating in the meeting are able to hear each other.

**Section 5. Waivers of Notice of Board Meetings and Board Meeting Adjournments.**

Notice of a board meeting need not be given to any Director who signs, or sends an email confirming a waiver of notice, in person or by proxy, whether before, during, or after the meeting, or who attends the meeting without protesting, prior to the conclusion of the meeting, the lack of notice of such meeting. Notice of an adjourned board meeting need not be given if the time and place to which the meeting is adjourned are announced at the meeting at which the adjournment is taken and if the period of adjournment does not exceed ten (10) days.

**Section 6. Action Without a Meeting.**

Any action required or permitted to be taken at a meeting of the Board, or of any committee thereof, may be taken by the Board or by the committee without a meeting if the action is consented to in writing by the number of Directors or members of the committee, as the case may be, entitled to vote on the action that would be required to approve the action at a meeting of the Board or committee with all members of the Board or committee present. The call for action without a meeting of the Board may be initiated by the chair or by any two Directors. Notice of the proposed call for action without a meeting, and all non-confidential material provided to the Board in connection with the call for action without a meeting, shall be posted on the Corporation’s website and sent via email to an email distribution list to which Members and the public may subscribe at

approximately the same time notice of the call for action without a meeting or such material is provided to the Board. The call for action without a meeting of a committee of the Board may be initiated by the chair of the committee or by any two members of the committee. The Directors or members of the committee shall receive written notice of the results of such action within seven (7) days of the action vote. All written responses of the Directors shall be filed with the minutes of the Corporation, and all written responses of members of a committee shall be filed with the minutes of such committee.

## **ARTICLE VII. OFFICERS**

**Section 1. Selection of Officers.** At a meeting held in accordance with Article VI of these Bylaws, the Board shall elect a CEO and shall approve a corporate secretary and such other officers of the Corporation (collectively, the "Officers") as it shall deem necessary. The CEO shall be nominated and elected by the Board. All of the other Officers shall be selected by the CEO and approved by the Board, and the removal of all Officers shall be confirmed by the Board. The Management Director shall not participate in votes electing, approving, or removing Officers. The duties and authority of the Officers shall be determined from time to time by the Board. Subject to any such determination, the Officers shall have the following duties and authority:

**Section 2. Chief Executive Officer ("CEO").** The CEO shall be the chief executive officer of the Corporation. He or she shall be responsible for the day-to-day ongoing activities of the Corporation and shall have such other duties as may be delegated or assigned to him or her by the chair. The CEO may enter into and execute in the name of the Corporation contracts or other instruments not in the regular course of business that are authorized, either generally or specifically, by the Board.

**Section 3. Corporate Secretary.** The secretary shall maintain the roster of Members of the Corporation, shall cause notices of all meetings to be served as prescribed in these Bylaws, shall keep or cause to be kept the minutes of all meetings of the Members and the Board, and shall have charge of the seal of the Corporation. The secretary shall perform such other duties and possess such other powers as are incident to his or her office or as shall be assigned to him or her by the CEO

**Section 4. Chief Financial Officer.** If hired and approved, a chief financial officer shall have custody of the funds and securities of the Corporation, shall keep or cause to be kept regular books of account for the Corporation and shall have the duties normally assigned to a treasurer of a corporation. The chief financial officer shall perform such other duties and possess such other powers as are incident to his or her office or as shall be assigned to him or her by the CEO.

**Section 5. Vice Presidents.** The CEO may select such other Corporate officers as he or she deems appropriate, subject to Board approval. Any such officer shall perform such other duties and possess such powers as are incident to his or her office or as shall be assigned to him or her by the CEO.

## **ARTICLE VIII. RELIABILITY STANDARDS COMMITTEE**

**Section 1. Requirement.** The Corporation shall have a Reliability Standards Committee, which shall operate in accordance with the Standards Development Process as set

forth in Exhibit C to the Delegation Agreement with NERC and approved by FERC. The chair and vice chair of the Standards Committee must be accepted or approved by the Board, in accordance with said Exhibit C.

## **ARTICLE IX. MEMBER REPRESENTATIVES COMMITTEE**

**Section 1. Purpose of Member Representatives Committee.** The Corporation shall have a "Member Representatives Committee" that shall provide advice and recommendations to the Board with respect to: annual budgets, business plans and funding mechanisms of the Corporation; other matters relevant to reliability of the ERCOT Bulk Power System; and other matters pertinent to the purpose and operations of the Corporation. The Member Representatives Committee shall provide its advice and recommendation to the Board through its chair and the vice chair, who also serve as the Affiliated Directors on the Board. The Member Representatives Committee may create subcommittees, task forces, or working groups ("subcommittees") as it deems appropriate to study or discuss selected technical or compliance matters and to make recommendations to the Board as requested or required by the Board or as deemed appropriate to its purpose by the Member Representatives Committee. Because it is elected by the Members of the Corporation and not appointed by the Board, the Member Representatives Committee shall not be a standing committee of the Board of Directors of the Corporation, but is authorized to provide advice and recommendations directly to the Board, through its elected chair and vice chair.

**Section 2. Composition of the Member Representatives Committee.** The Member Representatives Committee shall consist of two representatives from each Sector to serve annually and will annually select a chair and vice chair for the Member Representatives Committee. The representatives of each Sector shall be officers, employees, or directors of Members in that Sector; provided however, except for a Sector that has only one Member, only one officer, employee, or director of a Member in a Sector may be a representative from that Sector. The Board may by resolution create additional non-voting positions on the Member Representatives Committee on its own initiative or at the written request of any group of Members of the Corporation that believes its interests are not adequately represented on the Member Representatives Committee. There shall be no limit on the number of terms that an officer, employee, or director of a Member, may serve on the Member Representatives Committee.

**Section 3. Election of Representatives of the Member Representatives Committee.** Unless a Sector adopts an alternative election procedure, the annual election of representatives from each Sector to the Member Representatives Committee, and any election to fill a vacancy, shall be conducted in accordance with the following process, which shall be administered by the officers of the Corporation.

(a) During the period beginning no more than ninety (90) days and ending no less than fifteen (15) days prior to an annual meeting, or beginning no more than forty-five (45) days and ending no less than fifteen (15) days prior to a special meeting called in whole or in part to hold an election to fill a vacancy, nominations may be submitted for candidates for election to the Member Representatives Committee. A nominee for election as a Sector representative must be an officer, employee, or director of a Member in that Sector. No more than one nominee who is an officer, employee, or director of a Member may stand for election in any single Sector; if more than one officer, employee, or director of a Member is nominated for election from a Sector, the Member shall designate which such nominee shall stand for election.



The election of representatives shall be conducted over a period of ten (10) days using an electronic process approved by the secretary of the Corporation.

(b) Each Member in a Sector shall have one vote for each Representative to be elected from the Sector in that election and may cast no more than one vote for any nominee. The nominee receiving the highest number of votes in each Sector shall be elected to one Representative position to be filled from that Sector and the nominee receiving the second highest number of votes shall be elected as the second Representative position for that Sector. To be elected on the first ballot, a nominee must receive a number of votes equal to a simple majority of the Members in the Sector casting votes in the election. If no nominee in a Sector receives a simple majority of votes cast in the first ballot, a second ballot shall be conducted which shall be limited to the number of candidates receiving the three (3) highest vote totals on the first ballot. The nominees receiving the two highest totals of votes on the second ballot shall be elected to the Representative positions for the Sector.

(c) A Sector may adopt an alternative procedure to the foregoing to nominate and elect its Representatives to the Member Representatives Committee if the alternative procedure is approved by vote of at least two-thirds of the Members in the Sector, provided, however that any alternative procedure may be reviewed and disapproved by the Board.

(d) A Sector may elect an Alternate to serve in place and at the convenience of the Sector's Member Representatives Committee Representative(s) in the event a Member Representatives Committee Representative cannot attend a Member Representatives Committee meeting.

**Section 4. Chair and Vice Chair of the Member Representatives Committee.** After the annual selection of its Representatives, the Member Representatives Committee shall select a chair and vice chair from among its voting Representatives by majority vote to serve during the upcoming year and be the Affiliated Directors on the Board. The selected chair and vice chair may not be representatives of the same Sector and may not concurrently serve on the Board of ERCOT ISO. The Board shall be notified of the selection of the chair and vice chair, but the selection will not be subject to approval of the Board. The chair is responsible for ensuring that minutes of the meetings are properly maintained and made available to the public, but the chair may delegate this responsibility to the vice chair or to another Representative of the Member Representatives Committee who may be designated as secretary of the Member Representatives Committee.

**Section 5. Vacancies on the Member Representatives Committee.** In the event that any Representative of the Member Representatives Committee ceases to serve as a Representative of the Member Representatives Committee as a result of his or her death, resignation, retirement, disqualification, removal, or other cause, the Members in the Sector of which such Representative was a representative shall elect, as soon thereafter as reasonably practicable, and in accordance with the procedures in this Article IX, a new Representative to replace the Representative of the Member Representatives Committee who ceased to serve. For those Sectors that have elected an Alternate, the Alternate will fill a vacancy left by the Sector's Member Representative and a new Alternate will be elected by the Sector.

**Section 6. Meetings of the Member Representatives Committee.** The Member Representatives Committee will plan and hold quarterly meetings, at a time and place determined by the Member Representatives Committee, normally shortly before the regular meetings of the Board, and posted on the Corporation's website. Except for closed session meetings specifically allowed by this Section, all meetings shall be open to the public. The

Member Representatives Committee shall adopt such procedural rules as are needed to operate in accordance with its purpose and will include procedures for coordinating with employees of the Corporation who provide administrative support, as set forth in subsection 6(c), below.

(a) Notice to the public of the dates, places, and times of meetings of the Member Representatives Committee and any subcommittees thereof, and all non-confidential material provided to the Representatives on the Member Representatives Committee or any subcommittees thereof, shall be posted on the Corporation's website at approximately the same time that notice or such material is given to the Member Representatives Committee, which will normally be at least one week prior to any meeting. Meetings of the Member Representatives Committee shall be open to the public, subject to reasonable limitations due to the availability and size of meeting facilities; provided, that the Member Representatives Committee may meet in or adjourn to closed session to discuss matters of a confidential nature, including but not limited to confidential planning information, critical infrastructure information, or commercially sensitive information of the Corporation or any other entity. Any or all Representatives of, and any other participants in, the Member Representatives Committee may participate in a meeting of the Member Representatives Committee by means of a communications system by which all persons participating in the meeting are able to hear each other.

(b) Special meetings may be called for any purpose or purposes by the chair of the Member Representatives Committee or by any three (3) Representatives of the Member Representatives Committee, which number shall include representatives from at least three Sectors, and require notice given to all Representatives of the Member Representatives Committee not less than seven (7) days prior to the date of the meeting. Such notice shall specify the time, date, place, and purpose or purposes of the meeting and may be given by telephone, facsimile, or other electronic media, or by express delivery.

(c) The Member Representatives Committee shall effectively coordinate with the employees of the Corporation and adopt procedural rules for the voting for Representatives, scheduling of meetings, and public posting of required meeting information and minutes. The chair or vice chair of the Member Representatives Committee shall provide all meeting agendas, material, minutes and other information required or desired to be posted on the Corporation's website to appropriate Corporation employees at least one business day prior to the time such information should be posted.

**Section 7. Waivers of Notice of Meetings of the Member Representative Committee and Meeting Adjournments.** Notice of a meeting of the Member Representatives Committee need not be given to any member of the Member Representatives Committee who signs a waiver of notice, in person or by proxy, whether before or after the meeting, or who attends the meeting without protesting, prior to the conclusion of the meeting, the lack of notice of such meeting. Notice of an adjourned meeting of the Member Representatives Committee need not be given if the time and place to which the meeting is adjourned are announced at the meeting at which the adjournment is taken and if the period of adjournment does not exceed ten (10) days.

**Section 8. Quorums and Voting for Meetings of the Member Representatives Committee.** The quorum necessary for the transaction of business at meetings of the Member Representatives Committee shall be the presence, in person or by proxy, of two-thirds of the voting Representatives on the Member Representatives Committee entitled to attend. Each voting member of the Member Representatives Committee shall have one (1) vote on any matter coming before the Member Representatives Committee that requires

a vote. Except as otherwise expressly provided in the Corporation's Certificate of Formation, these Bylaws or applicable law, actions by members of the Member Representatives Committee shall be approved upon receipt of the affirmative vote of a majority of the voting members of the Member Representatives Committee present and voting at any meeting at which a quorum is present.

**Section 9. Alternates and Proxies.** Member Representatives may designate another Member Representative or an employee of the Member Representative's organization as a proxy if both the Member Representative and the Sector Alternate are unable to attend a Member Representatives Committee meeting. A member of the Member Representatives Committee may give a proxy only to a person who is an officer, employee, or director of a Member, registered in the same Sector.

**Section 10. Other Procedures of the Member Representatives Committee.** The chair of the Board shall preside at the initial meeting of the Member Representatives Committee, until a chair is selected in accordance with Article IX, Section 4. Except as to any matter as to which the procedure to be followed by the Member Representatives Committee is expressly set forth in these Bylaws, the Member Representatives Committee may adopt such additional procedures, not inconsistent with these Bylaws, as it deems appropriate, subject to review and disapproval by the Board.

## **ARTICLE X. OTHER COMMITTEES AND SUBCOMMITTEES**

**Section 1. Committees of the Corporation.** In addition to those committees specified by these Bylaws, to which the Board shall appoint members in accordance with the requirements of these Bylaws, the Board may by resolution create standing committees of the Corporation; and may in addition by resolution appoint the members of such committees, subcommittees, task forces and Sector-specific forums as the Board deems necessary or desirable to carry out the purposes of the Corporation. The Board shall appoint members to such standing committees and other committees of the Corporation that are representative of Members, other interested parties, and the public, that provide for balanced decision-making and that include persons with sufficient technical knowledge and experience. All committees, subcommittees, task forces and Sector-specific forums shall have such scope and duties, not inconsistent with law, as are specified in these Bylaws and the Rules of Procedure of the Corporation or otherwise determined by the Board.

## **ARTICLE XI. BUDGETS AND FUNDING**

**Section 1. Compensation of the Board and Member Representatives Committee.** The Board shall have the right to fix from time to time, by resolution adopted by a majority of the Directors including a majority of the Independent Directors then serving as Directors, the amount of the annual retainer fee or other compensation to be paid to the Independent Directors for their services to the Corporation, including any fees to be paid for each meeting of the Board or any Board committee attended by an Independent Director. The Board will evaluate the fee or other compensation at least every three years, to ensure that Director compensation is appropriate. No compensation shall be paid to any Management Director, Affiliated Director, or *ex officio* Director for his or her services on the Board, other than the compensation paid to the Management Director for services as CEO of the Corporation. No compensation shall be paid by the Corporation to any member of the Member Representatives

Committee for his or her services on the Member Representatives Committee. Independent Directors shall be entitled to be reimbursed their reasonable out-of-pocket expenditures for attending meetings and conducting the business of the Corporation.

**Section 2. Preparation and Adoption of Annual Budget, Business Plan, and Funding Mechanism.** The Board shall require the CEO to prepare for Board approval an annual business plan and budget for the administrative and other expenses of the Corporation, including the expenditures for the fiscal year for any material special projects undertaken by the Corporation and reasonable and proper reserves and provisions for contingencies, in accordance with all NERC and Commission requirements. The annual business plan, budget and funding mechanism of the Corporation shall be for a fiscal year commencing on January 1 and ending on December 31. Each annual business plan, budget, and funding mechanism shall be approved by the Board at a regular meeting or a special meeting of the Board duly called for that purpose. The Board shall approve each annual business plan, budget, and funding mechanism at a time that allows for timely submittal of the approved annual business plan, budget, and funding mechanism to the applicable regulatory authorities.

**Section 3. Comments During Preparation of Annual Business Plan and Budget.** In preparing the annual business plan and budget, the Board shall require that the CEO post a draft business plan and budget for review and comment by the Members of the Corporation, the Member Representatives Committee, and the standing committees of the Corporation for at least ten (10) days prior to the date of the meeting of the Board at which the annual business plan and budget is to be adopted.

**Section 4. Modified or Supplemental Budgets.** During the course of a fiscal year, the Board may modify any approved budget or develop and approve a supplemental budget if determined by the Board to be necessary due to such factors as a shortfall in revenues of the Corporation from projected levels, incurred or anticipated expenditures, duties, or new projects not provided for in the annual budget, or such other factors as in the judgment of the Board warrant modification of the budget for the fiscal year or development of a supplemental budget. In preparing a modified or supplemental budget, the Board shall follow the provisions of this Article XI, Section 4 to the extent practicable in the judgment of the Board in light of the urgency of the circumstances necessitating preparation and approval of the modified or supplemental budget. Each modified or supplemental budget shall be approved by the Board at a regular meeting or a special meeting of the Board duly called for that purpose.

**Section 5. Submission of Annual Business Plans and Budgets to the Regulatory Authorities.** Each annual budget, annual business plan, and annual, modified, or supplemental budget approved by the Board shall be submitted by the Corporation to the ERO and any applicable regulatory authorities for approval in accordance with its regulations, and shall not be effective until approved by the applicable regulatory authorities. If ordered to modify or remand an annual budget, business plan, or annual, modified, or supplemental funding mechanism, the Board shall promptly following such order adopt such modifications to the business plan, budget, or funding mechanism as are required or directed by the order of the ERO and any applicable regulatory authority.

## **ARTICLE XII. AMENDMENTS TO THE BYLAWS**

**Section 1. Amendments to the Bylaws.** These Bylaws may be altered, amended, or repealed by action of the Membership, as set forth below. Any alteration,

amendment, repeal or adoption of Bylaws shall be subject to any applicable requirements for filing with or approval by the ERO or any other applicable regulatory authority. These Bylaws may be altered, amended, or repealed as follows:

(a) Any Director or Member suggesting amendments to these Bylaws must submit a proposal of the amendment, including any necessary supporting documents, to the CEO.

(b) The CEO shall place the proposal on the agenda for a Board meeting in the time and manner prescribed by the Board and within 95 days of the request.

(c) If the proposal is approved by an act of the Board as set forth in Article VI, Section 3, the Board shall place the proposal on the agenda of the next Annual Meeting of the Corporate Members unless the Board in its discretion calls a Special Meeting of the Corporate Members to vote on the proposal or determines to seek Membership approval without a meeting as provided in Article V, Section 4.

(d) If the proposal is not approved by the Board, the Members of the Corporation may call a meeting, pursuant to Article V, Section 1(b), for the purpose of voting on a proposal not approved by the Board. Any such proposal must be approved by a vote of five of the six Sectors at a meeting of Members called for that purpose or by written consent of five of the Sectors, where the number of votes for and against the proposed alteration, amendment, repeal or adoption of Bylaws shall be determined in accordance with Article V, Section 2.

### **ARTICLE XIII. INDEMNIFICATION; PROCEDURE; DISSOLUTION**

**Section 1. Indemnification.** The Corporation shall indemnify each person who at any time shall serve, or shall have served, as an officer, Director, employee, or other corporate agent of the Corporation, is or was serving at its request as a director, officer, partner, venturer, proprietor, employee, agent or similar functionary of another foreign or domestic corporation, partnership, joint venture, sole proprietorship, trust, employee benefit plan or other enterprise ("Indemnified Parties"), to the full extent from time to time permitted by the Texas Business Organizations Code and other applicable law. Such right of indemnification shall inure to the benefit of the legal representative of any such Indemnified Party. The foregoing indemnification shall be in addition to, and not in restriction or limitation of, any privilege or power that the Corporation may have with respect to the indemnification or reimbursement of its Indemnified Parties. The Corporation shall also pay or advance reasonable expenses incurred by an Indemnified Party in connection with a proceeding in advance of the final disposition of the proceeding upon receipt of a written affirmation by the Indemnified Party of a good faith belief that the standard of conduct necessary for indemnification under this Article XIII and the Texas Business Organizations Code has been met and a written undertaking by or on behalf of the officer, Director, or other corporate agent to repay the amount if it shall be ultimately determined that the Indemnified Party was not entitled to be indemnified by the Corporation.

**Section 2. Parliamentary Rules.** In the absence of and to the extent not inconsistent with specific provisions in these Bylaws, meetings or other actions pursuant to these Bylaws shall be governed by procedures that the Board may, from time to time, establish by resolution.

**Section 3. Dissolution.** Upon dissolution of the Corporation, in accordance with the Certificate of Formation, the remaining assets of the Corporation after payment of debts

shall be distributed in the manner determined by the Board, provided that, (i) no part of the assets shall be distributed to any Director of the Corporation, and (ii) the distribution of assets shall be consistent with the requirements of Section 501(c)(3) of the United States Internal Revenue Code of 1954.

#### **ARTICLE XIV. CONFLICTS OF INTEREST**

##### **Section 1. Conflicts of Interest.**

(a) Each Director shall have an affirmative duty to disclose to the Board or committee (as the case may be) any actual or potential conflicts of interest of the Director that arise during his or her tenure as a Director where, and to the extent that, such conflicts or potential conflicts directly or indirectly affect any matter that comes before the Board. A Director with a direct or potentially conflicting interest in a matter shall recuse himself from deliberations and actions on the matter in which the conflict arises and shall abstain on any vote on the matter and not otherwise participate in a decision on the matter. Any disclosure of a potential conflict of interest by a Director shall be noted in the minutes of the Board meeting at which the direct interest is disclosed. Mere attendance at the meeting, without participating in discussion of the issue raising the potential conflict, shall not constitute participation.

(b) The Corporation may not make any loan to a Director, committee member or officer of the Corporation. A Member, Director, officer, or committee member of the Corporation may not lend money to, or otherwise transact business with, the Corporation except as otherwise provided by these Bylaws, the Certificate of Formation, and applicable law. A related party transacting business with the Corporation has the same rights and obligations relating to those matters as other persons transacting business with the Corporation, provided the related party nature of the transaction is known to the Board. The Corporation may not borrow money from, or otherwise transact business with, a Member, Director, officer, or committee member of the Corporation unless the transaction is described fully in a legally binding instrument, is in the Corporation's best interests, and is on terms no less favorable to the Corporation than could be obtained in an arms-length transaction. The Corporation may not borrow money from, or otherwise transact business with, a Member, Director, officer, or committee member of the Corporation without full disclosure of all relevant facts and without the Board's approval, not including the vote of any person having a personal interest in the transaction.

**Section 2. Prohibited Acts.** No Member, Director, officer, or committee member of the Corporation may do any of the below-listed prohibited acts. Engaging in these prohibited acts may lead to sanction, suspension, expulsion or termination after a hearing as described in these Bylaws. The prohibited acts include the following:

- (a) Do any act in violation of these Bylaws.
- (b) Do any act in violation of a binding obligation of the Corporation except with the Board's prior approval.
- (c) Do any act with the intention of harming the Corporation or any of its operations.
- (d) Receive an improper personal benefit from the operation of the Corporation.

(e) Use the Corporation's assets, directly or indirectly, for any purpose other than carrying on the Corporation's business.

(f) Wrongfully transfer or dispose of Corporation property, including intangible property such as goodwill.

(g) Use the Corporation's name (or any substantially similar name) or any trademark or trade name adopted by the Corporation, except on behalf of Corporation in the ordinary course of its business or as a reference to the Corporation or its region.

(h) Disclose any of Corporation's or Members' business practices, trade secrets, or any other confidential or proprietary information not generally known to the business community to any person not authorized to receive it.

**Section 3. Loans and Guarantees.** Neither participation in the activities of the Corporation nor any provision of these Bylaws or of the Certificate of Formation shall be deemed to constitute a pledge or loan of the credit of any Member for the benefit of the Corporation or a guarantee by any Member of any obligation of the Corporation.

## **ARTICLE XV. BOOKS AND RECORDS; AUDIT; FISCAL YEAR**

**Section 1. Access to Books and Records.** All Members of the Corporation will have access to the books and records of the Corporation, including financial statements and budgets; however, the Board shall establish procedures by which a Member, upon written demand stating the purpose of the demand may examine and copy the books and records of the Corporation. If necessary to protect the confidential information of the Corporation, a Member requesting examination of any of the Corporation's non-public books and records will be required to sign a confidentiality and non-disclosure agreement before viewing such information. The procedures shall include policies that provide reasonable protection against the unnecessary disclosure of information related to individual employees, including their compensation.

**Section 2. Audit.** At least annually, an audit of the financial statements of the Corporation shall be performed by the Auditor approved by the Board. The Auditor's opinion and the audited financial statements will be made available to all Members as described in Article XV, Section 1.

**Section 3. Fiscal Year.** The fiscal year of the Corporation shall be from January 1 through the following December 31, unless otherwise established by resolution of the Board.

## Exhibit C – Regional Standard Development Procedure

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Exhibit C shall set forth the Regional Entity's standards development procedure, which NERC agrees meets the following common attributes:

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### COMMON ATTRIBUTE 1

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Proposed regional reliability standards shall be subject to approval by NERC, as the electric reliability organization, and by FERC before becoming mandatory and enforceable under Section 215 of the FPA. No regional reliability standard shall be effective within the Texas ~~Regional Entity – A Division of Electric Reliability Council of Texas~~Entity, Inc. ("Texas RE") area unless filed by NERC with FERC and approved by FERC.

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~~ERCOT's regional standard development procedure or other governing documents contain the following language relative to this Common Attribute:~~

~~See TRE Standards Development Process (Process) – Introduction, 4th ¶:~~

~~Proposed ERCOT Specific Standards shall be subject to approval by NERC, as the electric reliability organization, and by FERC before becoming mandatory and enforceable under Section 215 of the FPA. No Standard shall be effective within the Texas RE area unless filed by NERC with FERC and approved by FERC.~~

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### COMMON ATTRIBUTE 2

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Texas RE regional reliability standards shall provide for as much uniformity as possible with reliability standards across the interconnected bulk power system of the North American continent. A Texas RE reliability standard shall be more stringent than a continent-wide reliability standard, including a regional difference that addresses matters that the continent-wide reliability standard does not, or shall be a regional difference necessitated by a physical difference in the bulk power system. A regional reliability standard that satisfies the statutory and regulatory criteria for approval of proposed North American reliability standards, and that is more stringent than a continent-wide reliability standard, would generally be acceptable.

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~~ERCOT's regional standard development procedure or other governing documents contain the following language relative to this Common Attribute:~~

~~See TRE Process – Introduction, 5th ¶:~~

~~ERCOT Specific Standards shall provide for as much uniformity as possible with reliability standards across the interconnected bulk power system of the North American continent. An ERCOT Specific Standard shall be more stringent than a continent wide reliability standard, including a regional difference that addresses matters that the continent wide reliability standard does not, or shall be a regional difference necessitated by a physical difference in the bulk power system. An~~



~~ERCOT Specific Standard that satisfies the statutory and regulatory criteria for approval of proposed North American reliability standards, and that is more stringent than a continent wide reliability standard, would generally be acceptable.~~

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### **COMMON ATTRIBUTE 3**

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Texas RE regional reliability standards, when approved by FERC, shall be made part of the body of NERC reliability standards and shall be enforced upon all applicable bulk power system owners, operators, and users within the Texas RE area, regardless of membership in the region.

~~ERCOT's regional standard development procedure or other governing documents contain the following language relative to this Common Attribute:~~

~~See TRE Process — Introduction, 6th ¶:~~

~~ERCOT Specific Standards, when approved by FERC, shall be made part of the body of NERC reliability standards and shall be enforced upon all applicable bulk power system owners, operators, and users within the Texas RE area, regardless of membership in the region.~~

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### **COMMON ATTRIBUTE 4**

**Requester** — The requester is the sponsor of the regional reliability standard request may assist in the development of the standard. Any member of Texas RE, or group within Texas RE shall be allowed to request that a regional reliability standard be developed, modified, or withdrawn. Additionally, any entity (person, organization, company, government agency, individual, etc.) that is directly and materially affected by the reliability of the bulk power system in the Texas RE area shall be allowed to request a regional reliability standard be developed, modified, or withdrawn.

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~~ERCOT's regional standard development procedure or other governing documents contain the following language relative to this Common Attribute:~~

~~See TRE Process — Roles in the Texas RE Reliability Standards Development Process, 1st ¶ — Originator:~~

~~**Originator** — Any person, acting as a representative of an organization which is directly and materially affected by the operation of ERCOT's BPS, is allowed to request a Standard be developed or an existing Standard modified, or deleted, by creating a Standards Authorization Request (SAR) as described in Appendix B to this document.~~

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### **COMMON ATTRIBUTE 5**

~~{Standards or other named} committee~~. The Texas RE ~~{reliability standards}~~ committee (~~RSC~~) manages the standards development process. The ~~{standards} committee~~~~RSC~~ will consider which requests for new or revised standards shall be assigned for development (or existing standards considered for deletion). The ~~{standards} committee~~~~RSC~~ will advise the Texas RE board on standards presented for adoption.

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ERCOT's regional standard development procedure or other governing documents contain the following language relative to this Common Attribute:

See TRE Process—Roles in the Texas RE Reliability Standards Development Process—5th ¶—Reliability Standards:

~~Reliability Standards Committee (RSC)—A balanced committee comprised of the seven (7) ERCOT Market Participant Segments that will consider which requests for new or revised Standards shall be assigned for development (or existing Standards considered for deletion). The RSC will also vote to recommend whether proposed new or revised Standards should be presented for a vote to all ERCOT Market Participants.~~

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## **COMMON ATTRIBUTE 6**

~~{Registered ballot body}~~. The registered ballot body comprises all entities or individuals that a) qualify for one of the stakeholder segments; are registered with Texas RE as potential ballot participants in the voting on standards; and are current with any designated fees. Each member of the registered ballot body is eligible to vote on standards. ~~{Each standard action has its own ballot pool formed of interested members of the registered ballot body. Each ballot pool comprises those members of the registered ballot body that respond to a pre-ballot survey for that particular standard action indicating their desire to participate in such a ballot pool.}~~ The representation model of the registered ballot body is provided in Appendix A.~~}~~

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ERCOT's regional standard development procedure or other governing documents contain the following language relative to this Common Attribute:

See TRE Process—Roles in the Texas RE Reliability Standards Development Process—3rd ¶:

~~Registered ballot body—The registered ballot body comprises all entities or individuals that a) qualify for one of the stakeholder segments; are registered with ERCOT as potential ballot participants in the voting on standards; and are current with any designated fees. Each member of the registered ballot body is eligible to vote on standards. Each standard action has its own ballot pool formed of interested members of the registered ballot body.~~

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**COMMON ATTRIBUTE 7**

Texas RE will coordinate with NERC such that the acknowledgement of receipt of a standard request identified in step 1, notice of comment posting period identified in step 4, and notice for vote identified in step 5 below are concurrently posted on both the Texas RE and NERC websites.

~~ERCOT's regional standard development procedure or other governing documents contain the following language relative to this Common Attribute:~~

~~See TRE Process — Texas RE Reliability Standards Development Process, B- Regional Reliability Standards Development Process Steps — 1st ¶:~~

~~The Texas RE will coordinate with NERC such that the acknowledgement of receipt of a standard request identified in Step 1, notice of comment posting period identified in Step 4, and notice for vote identified in Step 5 below are concurrently posted on both the Texas RE and NERC websites.~~

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**COMMON ATTRIBUTE 8**

An acceptable standard request shall contain a description of the proposed regional reliability standard subject matter containing sufficiently descriptive detail to clearly define the purpose, scope, impacted parties, and other relevant information of the proposed standard.

~~ERCOT's regional standard development procedure or other governing documents contain the following language relative to this Common Attribute:~~

~~See TRE Process — Texas RE Reliability Standards Development Process, B- Regional Reliability Standards Development Process Steps, Step 1 — 3rd ¶ & Appendix C:~~

~~An acceptable SAR contains a description of the proposed Standard subject matter containing sufficiently descriptive detail to clearly define the purpose, scope, impacted parties, and other relevant information of the proposed Standard.~~

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**COMMON ATTRIBUTE 9**

Within ~~no greater than 60~~ days of receipt of a completed standard request, the ~~standards~~ ~~committee~~ ~~RSC~~ shall determine the disposition of the standard request.

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~~ERCOT's regional standard development procedure or other governing documents contain the following language relative to this Common Attribute:~~

~~See TRE Process — Texas RE Reliability Standards Development Process, B- Regional Reliability Standards Development Process Steps, Step 1 — 5th ¶:~~

~~The Reliability Standards Manager will forward all adequately completed SARs to the RSC. Within 60 days of receipt of an adequately completed SAR, the RSC shall determine the disposition of the SAR and post for review and possible comment.~~

**COMMON ATTRIBUTE 10**

The ~~{standards} committee~~RSC may take one of the following actions:

- Accept the standard request as a candidate for development of a new standard, revision of an existing standard, or deletion of an existing standard. The ~~{standards} committee~~RSC may, at its discretion, expand or narrow the scope of the standard request under consideration. The ~~{standards} committee~~RSC shall prioritize the development of standard in relation to other proposed standards, as may be required based on the volume of requests and resources.
- Reject the standard request. If the ~~{standards} committee~~RSC rejects a standard request, a written explanation for rejection will be delivered to the requester within ~~1~~ no greater than ~~30~~ days of the decision.
- Remand the standard request back to the requester for additional work. The standards process manager will make reasonable efforts to assist the requester in addressing the deficiencies identified by the ~~{standards} committee~~RSC. The requester may then resubmit the modified standard request using the process above. The requester may choose to withdraw the standard request from further consideration prior to acceptance by the ~~{standards} committee~~RSC.

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~~ERCOT's regional standard development procedure or other governing documents contain the following language relative to this Common Attribute:~~

~~See TRE Process—Texas RE Reliability Standards Development Process, B-Regional Reliability Standards Development Process Steps, Step 1—6th ¶:~~

~~The disposition decision and decision process shall use the normal "business rules and procedures" of the RSC then in effect. The RSC may take one of the following actions by motion and majority vote:~~

- ~~Accept the SAR as a candidate for: development of a new Standard, revision of an existing Standard, or deletion of an existing Standard. The RSC may, in its sole discretion, expand or narrow the scope of the SAR under consideration. The RSC shall prioritize the development of SARs as may be required based on the number of SARs under development at any time.~~
- ~~Reject the SAR. If the RSC rejects a SAR, a written explanation for rejection will be delivered to the Originator within 30 days of the decision.~~
- ~~Remand the SAR back to the Originator for additional work. The Reliability Standards Manager will make reasonable efforts to assist the Originator in addressing the deficiencies identified by the RSC. The Originator may then resubmit the modified SAR using the process above. The Originator may choose to withdraw the SAR from further consideration prior to re-submittal to the RSC.~~

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**COMMON ATTRIBUTE 11**

Any standard request that is accepted by the ~~{standards} committee~~RSC for development of a standard (or modification or deletion of an existing standard) shall be posted for public viewing on the Texas RE website within ~~{no greater than 30}~~ days of acceptance by the ~~committee~~RSC.

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~~ERCOT's regional standard development procedure or other governing documents contain the following language relative to this Common Attribute:~~

~~See TRE Process—Texas RE Reliability Standards Development Process, B. Regional Reliability Standards Development Process Steps, Step 1—7th ¶:~~

~~Any SAR that is accepted by the RSC for development of a Standard (or modification or deletion of an existing Standard) shall be posted for public viewing on the Texas RE Website. SARs will be posted and the status publicly noted at regularly scheduled (appropriately two weeks) intervals.~~

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**COMMON ATTRIBUTE 12**

The standards process manager shall submit the proposed members of the drafting team to the ~~{standards} committee~~. ~~The {standards} committee~~RSC. ~~The RSC~~ shall approve the drafting team membership within 60 days of accepting a standard request for development, modifying the recommendations of the standards process manager as the committee deems appropriate, and assign development of the proposed standard to the drafting team.

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~~ERCOT's regional standard development procedure or other governing documents contain the following language relative to this Common Attribute:~~

~~See TRE Process—Texas RE Reliability Standards Development Process, B. Regional Reliability Standards Development Process Steps, Step 2—3rd ¶:~~

~~The Reliability Standards Manager submits the proposed list of names of the SDT to the ROS. The ROS will either accept the recommendations of the Reliability Standards Manager or modify the SDT slate, as it deems appropriate within 60 days of accepting a SAR for development.~~

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**COMMON ATTRIBUTE 13**

At the direction from the ~~{standards} committee~~RSC, the standards process manager shall facilitate the posting of the draft standard on the Texas RE website, along with a draft implementation plan and supporting documents, for a no less than a ~~{30} day~~ comment period. The standards process manager shall provide notice to Texas RE stakeholders and other potentially interested entities, both within and outside of the

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Texas RE area, of the posting using communication procedures then currently in effect or by other means as deemed appropriate.

~~ERCOT's regional standard development procedure or other governing documents contain the following language relative to this Common Attribute:~~

~~See TRE Process — Texas RE Reliability Standards Development Process, B- Regional Reliability Standards Development Process Steps, Step 4 — 1st ¶:~~

~~At the direction from the RSC, the Reliability Standards Manager then facilitates the posting of the draft Standard on the Texas RE Website, along with a draft implementation plan and supporting documents, for a 30-day comment period. The Reliability Standards Manager shall also inform ERCOT Members and other potentially interested entities inside or outside of ERCOT of the posting using typical membership communication procedures then currently in effect or by other means as deemed appropriate.~~

#### **COMMON ATTRIBUTE 14**

The drafting team shall prepare a summary of the comments received and the changes made to the proposed standard as a result of these comments. The drafting team shall summarize comments that were rejected by the drafting team and the reason(s) that these comments were rejected, in part or whole. The summary, along with a response to each comment received will be posted on the Texas RE website no later than the next posting of the proposed standard.

~~ERCOT's regional standard development procedure or other governing documents contain the following language relative to this Common Attribute:~~

~~See TRE Process — Texas RE Reliability Standards Development Process, B- Regional Reliability Standards Development Process Steps, Step 4 — 3rd ¶:~~

~~The SDT shall prepare a "modification report" summarizing the comments received and the changes made as a result of these comments. The modification report also summarizes comments that were rejected by the SDT and the reason(s) that these comments were rejected, in part or whole. Responses to all comments will be posted on the Texas RE Website no later than the next posting.~~

#### **COMMON ATTRIBUTE 15**

Upon recommendation of the drafting team, and if the ~~[standards] committee~~RSC, concurs that all of the requirements for development of the standard have been met, the standards process manager shall post the proposed standard and implementation plan for ballot and shall announce the vote to approve the standard, including when the vote will be conducted and the method for voting. Once the notice for a vote has been

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issued, no substantive modifications may be made to the proposed standard unless the revisions are posted and a new notice of the vote is issued.

ERCOT's regional standard development procedure or other governing documents contain the following language relative to this Common Attribute:

See TRE Process — Texas RE Reliability Standards Development Process, B- Regional Reliability Standards Development Process Steps, Step 5 — 1st ¶:

Upon recommendation of the drafting team, and if the RSC concurs that all of the requirements for development of the standard have been met, the Reliability Standards Manager shall post the proposed standard and implementation plan for ballot on the Texas RE Website and shall announce the vote to approve the standard, including when the vote will be conducted and the method for voting. Once the notice for a vote has been issued, no substantive modifications may be made to the proposed standard unless the revisions are posted and a new notice of the vote is issued.

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**COMMON ATTRIBUTE 16**

The standards process manager shall schedule a vote by the Texas RE registered ballot body /standards committee. The vote shall commence no sooner than 15 days and no later than 30 days following the issuance of the notice for the vote.

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ERCOT's regional standard development procedure or other governing documents contain the following language relative to this Common Attribute:

See TRE Process — Texas RE Reliability Standards Development Process, B- Regional Reliability Standards Development Process Steps, Step 5 — 2nd ¶:

The Reliability Standards Manager will schedule a Vote by the ERCOT Membership which is to be scheduled to commence no sooner than 15 days and no later than 30 days following this posting.

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**COMMON ATTRIBUTE 17**

The Texas RE registered ballot body shall be able to vote on the proposed standard during a period of not less than 10 days.

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ERCOT's regional standard development procedure or other governing documents contain the following language relative to this Common Attribute:

See TRE Process — Texas RE Reliability Standards Development Process, B- Regional Reliability Standards Development Process Steps, Step 6A — 1st ¶:



~~The Texas RE-registered ballot body shall be able to vote on the proposed standard during a 15-day period.~~

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#### **COMMON ATTRIBUTE 18**

~~All members of Texas RE are eligible to participate in voting on proposed new standards, standard revisions or standard deletions. [Alternatively, Each standard action requires formation of a ballot pool of interested members of the registered ballot body].~~

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~~ERCOT's regional standard development procedure or other governing documents contain the following language relative to this Common Attribute:~~

~~See TRE Process — Texas RE Reliability Standards Development Process, B-Regional Reliability Standards Development Process Steps, Step 6A — 3rd ¶:~~

~~All members of ERCOT are eligible to participate in voting on proposed new standards, standard revisions, or standard deletions. There shall be one person designated as the primary representative of each entity.~~

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#### **COMMON ATTRIBUTE 19**

~~Approval of the proposed regional reliability standard shall require a [two thirds] majority in the affirmative (affirmative votes divided by the sum of affirmative and negative votes). Abstentions and non-responses shall not count toward the results, except that abstentions may be used in the determination of a quorum. A quorum shall mean [XX%] at least one representative from four (4) of the six (6) Sectors of the members of the [registered ballot body/ballot pool] submitted a ballot.~~

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~~ERCOT's regional standard development procedure or other governing documents contain the following language relative to this Common Attribute:~~

~~See TRE Process — Texas RE Reliability Standards Development Process, B-Regional Reliability Standards Development Process Steps, Step 6A — 4th ¶:~~

~~At least one (1) ERCOT Member Representative from five (5) of the seven (7) ERCOT Market Participant Segments must vote to constitute a quorum. Each Segment shall have one (1) Segment Vote. The representative of each Voting ERCOT Member shall receive an equal fraction of its Segment Vote. If a draft Standard receives 4.67 or greater affirmative votes during the 15-day voting period, the RSC will forward the Standard to the ERCOT BOD for action (Step 7).~~

#### **COMMON ATTRIBUTE 20**

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Under no circumstances may the board substantively modify the proposed regional reliability standard.

~~ERCOT's regional standard development procedure or other governing documents contain the following language relative to this Common Attribute:~~

~~See TRE Process—Texas RE Reliability Standards Development Process, B-Regional Reliability Standards Development Process Steps, Step 7—5th ¶:~~

~~Under no circumstances may the board substantively modify the proposed ERCOT Specific Reliability Standard.~~

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#### **COMMON ATTRIBUTE 21**

Once a regional reliability standard is approved by the board, the standard will be submitted to NERC for approval and filing with FERC.

~~ERCOT's regional standard development procedure or other governing documents contain the following language relative to this Common Attribute:~~

~~See TRE Process—Texas RE Reliability Standards Development Process, B-Regional Reliability Standards Development Process Steps, Step 7—6th ¶:~~

~~Once an ERCOT Specific Reliability Standard is approved by the BOD, the standard will be submitted to NERC for approval and filing with FERC.~~

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#### **COMMON ATTRIBUTE 22**

- **Open** - Participation in the development of a regional reliability standard shall be open to all organizations that are directly and materially affected by the Texas RE bulk power system reliability. There shall be no undue financial barriers to participation. Participation shall not be conditioned upon membership in Texas RE, and shall not be unreasonably restricted on the basis of technical qualifications or other such requirements. Meetings of drafting teams shall be open to the Texas RE members and others.

~~ERCOT's regional standard development procedure or other governing documents contain the following language relative to this Common Attribute:~~

~~See TRE Process—Appendix B, I. Principles,—3rd ¶—Open:~~

- ~~**Open**—Participation in the development of an ERCOT Specific Reliability Standard shall be open to all organizations that are directly and materially affected by ERCOT bulk power system reliability. There shall be no undue financial barriers to participation. Participation shall not be~~

~~conditioned upon membership in ERCOT, and shall not be unreasonably restricted on the basis of technical qualifications or other such requirements. Meetings of drafting teams shall be open to ERCOT members and others.~~

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#### **COMMON ATTRIBUTE 23**

- **Balanced** - The Texas RE standards development process strives to have an appropriate balance of interests and shall not be dominated by any two interest categories and no single interest category shall be able to defeat a matter.

~~ERCOT's regional standard development procedure or other governing documents contain the following language relative to this Common Attribute:~~

~~See TRE Process — Appendix B, I. Principles, — 3rd ¶ — Balanced:~~

- ~~**Balanced** — The Texas RE Standards Development Process strives to have an appropriate balance of interests and shall not be dominated by any two interest categories and no single interest category shall be able to defeat a matter.~~

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#### **COMMON ATTRIBUTE 24**

- **Inclusive** — Any entity (person, organization, company, government agency, individual, etc.) with a direct and material interest in the bulk power system in the Texas RE area shall have a right to participate by: a) expressing a position and its basis, b) having that position considered, and c) having the right to appeal.

~~ERCOT's regional standard development procedure or other governing documents contain the following language relative to this Common Attribute:~~

~~See TRE Process — Appendix B, I. Principles, — 3rd ¶ — Inclusive:~~

- ~~**Inclusive** — Any entity (person, organization, company, government agency, individual, etc.) with a direct and material interest in the ERCOT Bulk Power System in the Texas RE area shall have a right to participate by: a) expressing a position and its basis, b) having that position considered, and c) having the right to appeal.~~

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#### **COMMON ATTRIBUTE 25**

- **Fair due process** — The regional reliability standards development procedure shall provide for reasonable notice and opportunity for public comment. At a minimum, the procedure shall include public notice of the intent to develop a

standard, a public comment period on the proposed standard, due consideration of those public comments, and a ballot of interested stakeholders.

~~ERCOT's regional standard development procedure or other governing documents contain the following language relative to this Common Attribute:~~

~~See TRE Process — Appendix B, I. Principles, — 3rd ¶ — Fair due process:~~

- ~~• **Fair due process** — The Texas RE Reliability Standards Development Process shall provide for reasonable notice and opportunity for public comment. At a minimum, the procedure shall include public notice of the intent to develop a standard, a public comment period on the proposed standard, due consideration of those public comments, and a ballot of interested stakeholders.~~

**COMMON ATTRIBUTE 26**

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- **Transparent** — All actions material to the development of regional reliability standards shall be transparent. All standards development meetings shall be open and publicly noticed on the regional entity's Web site.

~~ERCOT's regional standard development procedure or other governing documents contain the following language relative to this Common Attribute:~~

~~See TRE Process — Appendix B, I. Principles, — 3rd ¶ — Transparent:~~

- ~~• **Transparent** — All actions material to the development of regional reliability standards shall be transparent. All standards development meetings shall be open and publicly noticed on the regional entity's Web site.~~

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**COMMON ATTRIBUTE 27**

- Does not unnecessarily delay development of the proposed reliability standard.

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~~ERCOT's regional standard development procedure or other governing documents contain the following language relative to this Common Attribute:~~

~~See TRE Process — Appendix B, I. Principles, — 3rd ¶ — Last bullet:~~

- ~~• Does not unnecessarily delay development of the proposed ERCOT-Specific Reliability Standard.~~

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**COMMON ATTRIBUTE 28**

Each standard shall enable or support one or more of the reliability principles, thereby ensuring that each standard serves a purpose in support of the reliability of the regional bulk power system. Each standard shall also be consistent with all of the reliability principles, thereby ensuring that no standard undermines reliability through an unintended consequence.

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ERCOT's regional standard development procedure or other governing documents contain the following language relative to this Common Attribute:

See TRE Process — Appendix B, I. Principles, — 5th ¶:

~~Each ERCOT Specific Reliability Standard shall enable or support one or more of the reliability principles, thereby ensuring that each Standard serves a purpose in support of the reliability of the ERCOT bulk power system. Each Standard shall also be consistent with all of the reliability principles, thereby ensuring that no Standard undermines reliability through an unintended consequence.~~

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#### **COMMON ATTRIBUTE 29**

While reliability standards are intended to promote reliability, they must at the same time accommodate competitive electricity markets. Reliability is a necessity for electricity markets, and robust electricity markets can support reliability. Recognizing that bulk power system reliability and electricity markets are inseparable and mutually interdependent, all regional reliability standards shall be consistent with NERC's market interface principles. Consideration of the market interface principles is intended to ensure that standards are written such that they achieve their reliability objective without causing undue restrictions or adverse impacts on competitive electricity markets.

ERCOT's regional standard development procedure or other governing documents contain the following language relative to this Common Attribute:

See TRE Process — Appendix B, I. Principles, — 6th ¶:

~~While reliability standards are intended to promote reliability, they must at the same time accommodate competitive electricity markets. Reliability is a necessity for electricity markets, and robust electricity markets can support reliability. Recognizing that bulk power system reliability and electricity markets are inseparable and mutually interdependent, all ERCOT Specific Reliability Standards shall be consistent with NERC's market interface principles. Consideration of the market interface principles is intended to ensure that standards are written such that they achieve their reliability objective without causing undue restrictions or adverse impacts on competitive electricity markets.~~

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#### **COMMON ATTRIBUTE 30**

To ensure uniformity of regional reliability standards, a regional reliability standard shall consist of the elements identified in this section of the procedure. These elements are intended to apply a systematic discipline in the development and revision of standards. This discipline is necessary to achieving standards that are measurable, enforceable, and consistent.

~~ERCOT's regional standard development procedure or other governing documents contain the following language relative to this Common Attribute:~~

~~See TRE Process—Appendix B, II. Regional Reliability Standard Characteristics and Elements, b. Elements of a Regional Reliability Standard—1st ¶:~~

~~To ensure uniformity of regional reliability standards, an ERCOT Specific Reliability Standard shall consist of the elements identified in this section of the procedure. These elements are intended to apply a systematic discipline in the development and revision of standards. This discipline is necessary to achieving standards that are measurable, enforceable, and consistent.~~

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### **COMMON ATTRIBUTE 31**

All mandatory requirements of a regional reliability standard shall be within the standard. Supporting documents to aid in the implementation of a standard may be referenced by the standard but are not part of the standard itself.

~~ERCOT's regional standard development procedure or other governing documents contain the following language relative to this Common Attribute:~~

~~See TRE Process—Appendix B, II. Regional Reliability Standard Characteristics and Elements, b. Elements of a Regional Reliability Standard—2nd ¶:~~

~~All mandatory requirements of a regional reliability standard shall be within the standard. Supporting documents to aid in the implementation of a standard may be referenced by the standard but are not part of the standard itself.~~

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### **COMMON ATTRIBUTE 32**

<b>Applicability</b>	Clear identification of the functional classes of entities responsible for complying with the standard, noting any specific additions or exceptions. If not applicable to the entire Texas RE area, then a clear identification of the portion of the bulk power system to which the standard applies. Any limitation on the applicability of the standard based on electric facility requirements should be described.
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~~ERCOT's regional standard development procedure or other governing documents contain the following language relative to this Common Attribute:~~

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~~See TRE Process—Appendix B, II. Regional Reliability Standard Characteristics and Elements, b. Elements of a Regional Reliability Standard—Table 1—Applicability:~~

<del><b>Applicability</b></del>	<del>Clear identification of the functional classes of entities responsible for complying with the standard, noting any specific additions or exceptions. If not applicable to the entire Texas RE area, then a clear identification of the portion of the bulk power system to which the standard applies. Any limitation on the applicability of the standard based on electric facility requirements should be described.</del>
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### **COMMON ATTRIBUTE 33**

<b>Measure(s)</b>	Each requirement shall be addressed by one or more measures. Measures are used to assess performance and outcomes for the purpose of determining compliance with the requirements stated above. Each measure will identify to whom the measure applies and the expected level of performance or outcomes required demonstrating compliance. Each measure shall be tangible, practical, and as objective as is practical. It is important to realize that measures are proxies to assess required performance or outcomes. Achieving the measure should be a necessary and sufficient indicator that the requirement was met. Each measure shall clearly refer to the requirement(s) to which it applies.
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~~ERCOT's regional standard development procedure or other governing documents contain the following language relative to this Common Attribute:~~

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~~See TRE Process—Appendix B, II. Regional Reliability Standard Characteristics and Elements, b. Elements of a Regional Reliability Standard—Table 1—Measures(s):~~

<del><b>Measure(s)</b></del>	<del>Each requirement shall be addressed by one or more measures. Measures are used to assess performance and outcomes for the purpose of determining compliance with the requirements stated above. Each measure will identify to whom the measure applies and the expected level of performance or outcomes required demonstrating compliance. Each measure shall be tangible, practical, and as objective as is practical. It is important to realize that measures are proxies to assess required performance or outcomes. Achieving the measure should be a necessary and sufficient indicator that the requirement was met. Each measure shall clearly refer to the requirement(s) to which it applies.</del>
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**COMMON ATTRIBUTE 34**

<p><b>Compliance Monitoring Process</b></p>	<p>Defines for each measure:</p> <ul style="list-style-type: none"> <li>• The specific data or information that is required to measure performance or outcomes.</li> <li>• The entity that is responsible for providing the data or information for measuring performance or outcomes.</li> <li>• The process that will be used to evaluate data or information for the purpose of assessing performance or outcomes.</li> <li>• The entity that is responsible for evaluating data or information to assess performance or outcomes.</li> <li>• The time period in which performance or outcomes is measured, evaluated, and then reset.</li> <li>• Measurement data retention requirements and assignment of responsibility for data archiving.</li> <li>• <del>Violation severity levels.</del></li> </ul>
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ERCOT's regional standard development procedure or other governing documents contain the following language relative to this Common Attribute:

See TRE Process — Appendix B, II. Regional Reliability Standard Characteristics and Elements, b. Elements of a Regional Reliability Standard — Table 2 — Compliance Monitoring Process:

<p><b>Compliance Monitoring Process</b></p>	<p>Defines for each measure:</p> <ul style="list-style-type: none"> <li>• The specific data or information that is required to measure performance or outcomes.</li> <li>• The entity that is responsible for providing the data or information for measuring performance or outcomes.</li> <li>• The process that will be used to evaluate data or information for the purpose of assessing performance or outcomes.</li> <li>• The entity that is responsible for evaluating data or information to assess performance or outcomes.</li> <li>• The time period in which performance or outcomes is measured, evaluated, and then reset.</li> <li>• Measurement data retention requirements and assignment of responsibility for data archiving.</li> <li>• <del>Violation severity levels.</del></li> </ul>
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# Texas ~~Regional~~Reliability Entity Standards Development Process

## Appendix to Exhibit C to the Delegation Agreement Between NERC and ~~ERCOT~~Texas Reliability Entity

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## I. Introduction

This document defines the fair and open process for adoption, approval, revision, and reaffirmation, ~~and deletion of an Electric Reliability Council of Texas, Inc. (ERCOT)~~ a Regional Reliability Standard (Regional Standard) ~~by~~for the ERCOT Region by Texas Regional Reliability Entity, Inc. (Texas RE) ~~a division of ERCOT.~~ Regional Standards provide for the reliable regional and sub-regional planning and operation of the Bulk-Power System (BPS), consistent with Good Utility Practice within a Regional Entity's (RE's) geographical footprint.

The process for obtaining a Texas RE Regional Variance to a NERC Reliability Standard shall be the same as the process for obtaining a Regional Standard. Throughout this document, where the term Regional Standard is used, the same process will be applied to a Regional Variance.

Due process is the key to ensuring that Regional Standards are developed in an environment that is equitable, accessible and responsive to the requirements of all interested and affected parties. An open and fair process ensures that all interested and affected parties have an opportunity to participate in a Regional Standard's development.

Any entity (person, organization, company, government agency, individual, etc.) with a direct and material interest in the BPS has a right to participate by: a) expressing a position and its basis, b) having that position considered, and c) having the right to appeal.

Proposed Regional Standards shall be subject to approval by North American Electric Reliability Corporation (NERC), as the electric reliability organization, and by the Federal Energy Regulatory Commission (FERC) before becoming mandatory and enforceable under Section 215 of the FPA. No Regional Standard shall be effective within the Texas RE area unless filed by NERC with FERC and approved by FERC.

Regional Standards shall provide for as much uniformity as possible with reliability standards across the interconnected BPS of the North American continent. A Regional Standard shall be more stringent than a continent-wide reliability standard, including a regional difference that addresses matters that the continent-wide reliability standard does not, or shall be a regional difference necessitated by a physical difference in the BPS. A Regional Standard that satisfies the statutory and regulatory criteria for approval of proposed North American reliability standards, and that is more stringent than a continent-wide reliability standard, would generally be acceptable.

Regional Standards, when approved by FERC, shall be made part of the body of NERC reliability standards and shall be enforced upon all applicable BPS owners, operators, and users within the Texas RE area, regardless of membership in the region.

## II. Background

The Texas RE may develop, through ~~their~~s own processes, separate Regional Standards that go beyond, add detail to, or implement NERC Reliability Standards; obtain a Regional Variance; or otherwise address issues that are not addressed in NERC Reliability Standards.

NERC Reliability Standards and Regional Standards are all to be included within the Texas RE's Compliance Program.

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Regional Standards are developed consistent with the following philosophies according to the process defined within this document:

- Developed in a fair and open process that provides an opportunity for all interested parties to participate;
- Does not have an adverse impact on commerce that is not necessary for reliability;
- Provides a level of BPS reliability that is adequate to protect public health, safety, welfare, and national security and does not have a significant adverse impact on reliability; and
- Based on a justifiable difference between regions or between sub-regions within the Regional geographic area.

The NERC Board of Trustees has adopted reliability principles and market interface principles to define the purpose, scope, and nature of reliability standards. As these principles are fundamental to reliability and the market interface, these principles provide a constant beacon to guide the development of reliability standards. The NERC Board of Trustees may modify these principles from time to time, as necessary, to adapt its vision for reliability standards. Persons and committees that are responsible for the Texas RE Standards Process shall consider these NERC Principles in the execution of those duties.

NERC Reliability Standards are based on certain reliability principles that define the foundation of reliability for the North American BPS. Each Regional Standard shall enable or support one or more of the reliability principles, thereby ensuring that each Regional Standard serves a purpose in support of reliability of the North American BPS. Each Regional Standard shall also be consistent with all of the reliability principles, thereby ensuring that no Regional Standard undermines reliability through an unintended consequence.

While NERC Reliability Standards are intended to promote reliability, they must at the same time accommodate competitive electricity markets. Reliability is a necessity for electricity markets, and robust electricity markets can support reliability. Recognizing that BPS reliability and electricity markets are inseparable and mutually interdependent, all Regional Standards shall be consistent with the market interface principles. Consideration of the market interface principles is intended to ensure that Regional Standards are written such that they achieve their reliability objective without causing undue restrictions or adverse impacts on competitive electricity markets.

### III. Regional Standards Definition

A NERC Reliability Standard defines certain obligations or requirements of entities that operate, plan, and use the BPS of North America. The obligations or requirements must be material to reliability and measurable. Each obligation and requirement shall support one or more of the stated reliability principles and shall be consistent with all of the stated reliability and market interface principles.

~~The Texas RE may develop, through its own processes, separate, (1) Regional Standards that go beyond, add detail to, or implement NERC Reliability Standards; obtain a Regional Variance; or that cover matters not addressed in NERC Reliability Standards. Regional Criteria may be developed, and exist in ERCOT Protocols, Operating Guides, and/or Procedures separately from (2) Regional Variances that allow an alternative approach to meeting the same reliability~~

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~~objective as the NERC Reliability Standards, or may be proposed as NERC Reliability Standards. Regional Criteria that exist separately from NERC Reliability Standards shall not be inconsistent with or less stringent than NERC Reliability Standards. Standard and are typically necessitated by physical differences.~~

#### IV. Roles in the Texas RE Regional Standards Development Process

**Originator** – Any person, acting as a representative of an organization ~~which~~that is directly and materially affected by the operation of ~~ERCOT~~the ERCOT region BPS, is allowed to request ~~that~~ a Regional Standard be developed or an existing Regional Standard modified, or deleted, by creating a Regional Standards Authorization Request (SAR) as described in Appendix B to this document.

**Texas RE Board of Directors (Texas RE BOD)** – The Texas RE BOD shall act on any proposed Regional Standard that has gone through the process. Once the Regional Standard is approved by ~~the Federal Energy Regulatory Commission (FERC)~~FERC, compliance with the Regional Standard will be enforced consistent with the terms of the Regional Standard.

**Registered Ballot Body (RBB)** – The Registered Ballot Body is comprised of all entities or individuals ~~that (whether or not they are Texas RE corporate members) that are ERCOT region BPS owners, operators, and users and~~ qualify for one of the ~~below-listed~~ Texas RE SegmentsStandards Development Sectors, and are registered with the Texas RE as potential ballot participants. ~~This includes the ERCOT Independent System Operator (ERCOT ISO) and all entities or individuals that are part of an ERCOT Market Participant Segment and are current with any ERCOT designated fees or have received a fee waiver.~~

**Registered Ballot Pool (RBP)** – Each Regional Standard has its own ballot pool formed of interested members of the Registered Ballot Body. Through the voting process, the RBP will ensure that the need for and technical merits of a proposed Regional Standard are appropriately considered. The RBP will also ensure that appropriate consideration of views and objections are received during the development process.

~~**Reliability and Operations Subcommittee (ROS)** – A balanced subcommittee comprised of the seven (7) ERCOT Market Participant Segments responsible for reviewing events and issues as they may impact ERCOT system reliability and operations. Meetings of the ROS are open to all interested parties. The ERCOT ISO is an active participant in all ROS discussions.~~

~~**Reliability Standards Committee (RSC)** – A balanced committee comprised of entities representing the seven (7) ERCOT Market Participant Segments and the ERCOT ISO, that will consider which requests for new or revised Regional Standards shall be assigned for development (or existing Regional Standards considered for deletion). The RSC will also vote to recommend whether proposed new or revised Regional Standards should be presented for a vote to the Registered Ballot Body.~~

**Reliability Standards Committee (RSC)** – A balanced committee comprised of entities representing the six Texas RE Standard Development Sectors. The RSC will consist of two representatives from each Sector (except that Sectors with only one member may only have one representative), as elected by the Sector, and the RSC requires a quorum of at least one representative from at least two-thirds (2/3) of the Sectors to take action. The RSC in coordination with the Reliability Standards Manager will review, participate in, and manage the

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Texas RE Regional Standards Development Process, and develop Texas RE Regional Standards on a schedule as directed by NERC and as needed per the reliability related needs of the ERCOT Region. Where necessary or appropriate, the RSC will coordinate the development of Texas RE Regional Standards and Regional Variances with the development of national standards appearing in the NERC work plan, and the RSC will coordinate and submit comments as a group, to the extent feasible. The RSC will also review FERC Orders pertaining to standards and standards development activities to ensure directives are addressed in regional standard development.

**Reliability Standards Manager (RSM)** – ~~A person or persons on the~~ Texas RE ~~staff~~employee assigned the task of ensuring that the development, revision or deletion of Regional Standards is in accordance with this document. The RSM works with the RSC to ensure the integrity of the process and consistency of quality and completeness of the Regional Standards. The RSM manages the Regional Standards Development Process, and coordinates and facilitates all actions contained in all steps in the process: including the management of the Standard Drafting Teams and the facilitation of RSC meetings.

**Reliability Standards Staff** – Employees of the Texas RE that work with or for the Reliability Standards Manager.

**Standard Drafting Team (SDT)** – A team of technical experts, assigned by the ~~ERCOT Reliability and Operations Subcommittee (ROS), RSC,~~ and typically includes a ~~member of the~~ Texas RE ~~staff~~employee and the Originator, assigned the task of developing a proposed Regional Standard based upon an approved SAR using the Regional Standard Development Process contained in this document.

**Texas RE ~~Segments~~Standards Development Sectors (Sectors)** – ~~The seven (7) ERCOT Market Participant Segments~~six (6) Texas RE Standards Development Sectors are defined as follows:

- 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: An entity that is registered with NERC as a Transmission Owner (TO), Transmission Planner (TP), Transmission Service Provider (TSP), and/or Transmission Operator (TOP).
- Cooperative or Utility: An entity that is (a) a corporation organized under Chapter 161 of the ~~ERCOT ISO~~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.
- Municipal Utility: A municipally owned utility as defined in PURA §11.003 and is registered with NERC for at least one registered 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 Function for demand response, and any entity with a direct and material interest in the ERCOT region BPS that is not eligible for membership in any other Sector.

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## V. Texas RE Regional Standards Development Process

### A. Assumptions and Prerequisites

The process for developing and approving Standards is generally based on the procedures of the American National Standards Institute (ANSI) and other standards-setting organizations in the United States and Canada. The Regional Standards development process has the following characteristics:

- **Due process** – Any person representing an organization with a direct and material interest has a right to participate by:
  - a) Expressing an opinion and its basis,
  - b) Having that position considered, and
  - c) Appealing any negative decision
- **Openness** – Participation is open to all organizations that are directly and materially affected by ERCOT region's BPS reliability. There shall be no undue financial barriers to participation. Participation shall not be conditioned upon membership in ~~ERCOT~~ Texas RE, and shall not be unreasonably restricted on the basis of technical qualifications or other such requirements. Meetings of SDTs are open to all interested parties. All proposed SARs and Regional Standards are posted for comment on the Texas RE Website.
- **Balance** – The Texas RE Standards Development Process strives to have an appropriate balance of interests and shall not be dominated by any single interest category.

### B. Regional Standards Development Process Steps

**Note:** The term “days” below refers to calendar days.

~~The~~ Texas RE will coordinate with NERC such that the acknowledgement of receipt of a Regional Standard request identified in Step 1, notice of comment posting period identified in Step 4, and notice for vote identified in Step 5 below are concurrently posted on both the Texas RE and NERC websites.

#### ***Step 1 – Development of a Standards Authorization Request (SAR) to Develop, Revise, or Delete a Regional Standard***

Any entity (Originator) ~~which that~~ is directly or materially impacted by the operation of the BPS (including all users, owners, and operators of the BPS and regardless of whether the entity is a Texas RE member) within the geographical footprint of ~~the~~ Texas RE may request, via a submittal of a Standard Authorization Request (SAR) form, the development, modification, or deletion of a Regional Standard or Regional Variance. ~~The following entities may submit a SAR:~~

- ~~Any market participant,~~
- ~~PUCT Staff,~~
- ~~ERCOT Staff,~~

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- ~~• TRE Staff, and~~
- ~~• Any entity that resides (or represents residents) in the ERCOT Region or operates in the ERCOT Region electricity market.~~

Any such request shall be submitted to the Texas RE RSM, or his/ ~~or~~ her designee in electronic format. The SAR form may be downloaded from the Texas RE Website.

An acceptable SAR contains a description of the proposed Regional Standard subject matter containing sufficiently descriptive detail to clearly define the purpose, scope, impacted parties, and other relevant information of the proposed Regional Standard.

The RSM will verify that the submitted SAR form has been adequately completed. The RSM may offer the Originator suggestions regarding changes and/or improvements to enhance clarity of the Originator's intent and objectives. The Originator is free to accept or reject these suggestions. Within 15 days the RSM will electronically acknowledge receipt of the SAR.

The RSM will post all adequately completed SARs on the Texas RE Website for public viewing and ~~possible~~ comment. This initial SAR comment period shall be 15 days. After this initial comment period, the RSM will then forward the SAR to the RSC for its consideration at the next regularly scheduled meeting of the RSC. Within 60 days of receipt of an adequately completed SAR that has been through the initial 15-day comment period, the RSC shall determine the disposition of the SAR and, ~~if needed~~ the RSC deems necessary, direct the RSM to post the revised SAR again for review and comment for another 15-day period.

The disposition ~~decision and~~ decision process shall use the normal "business rules and procedures" of the RSC then in effect. The RSC may vote to take one of the following actions:

- Accept the SAR as a candidate for: development of a new Regional Standard, revision of an existing Regional Standard, or deletion of an existing Regional Standard. The RSC may, in its sole discretion, expand or narrow the scope of the SAR under consideration. The RSC shall prioritize the development of SARs as may be required based on the number of SARs under development at any time.
- Reject the SAR. If the RSC rejects a SAR, a written explanation for rejection will be delivered to the Originator within 30 days of the decision, and the Texas RE BOD will also be notified with such explanation. The Texas RE BOD may, at its discretion, direct the RSC to reconsider any SAR that has been rejected.
- Remand the SAR back to the Originator for additional work. The RSM will make reasonable efforts to assist the Originator in addressing the deficiencies identified by the RSC. The Originator may then resubmit the modified SAR using the process above. The Originator may choose to withdraw the SAR from further consideration prior to re-submittal to the RSC.

Any SAR that is accepted by the RSC for development of a Regional Standard (or modification or deletion of an existing Regional Standard) shall be posted for public viewing on the Texas RE Website, and their status will be updated as appropriate.

Any documentation of the deliberations of the RSC concerning SARs shall be made available according to normal "business rules and procedures" of the RSC then in effect.

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Texas RE Staff shall submit a written report to the Texas RE BOD on a periodic basis (at least quarterly at regularly scheduled Texas RE BOD Meetings) showing the status of all SARs that have been brought to the RSC for consideration.

### **Step 2 – Formation of the Standard Drafting Team and Declaration of Milestone Date**

Upon acceptance by the RSC of a SAR for development of a new Regional Standard (or modification or deletion of an existing Regional Standard), the RSC shall direct the ~~ROS~~RSM to assemble a qualified balanced slate for the SDT. The RSM will solicit drafting team nominees ~~by announcing the opening of nominations to the stakeholders in the region.~~ The SDT ~~will~~shall consist of a group of people who collectively have the necessary technical expertise and work process skills ~~to draft the standard being requested in the SAR.~~ The RSM ~~will~~shall recommend ~~to the RSC~~ a slate of ad-hoc individuals or a pre-existing task force, work group, or similar group for the SDT ~~based upon the ROS' desired team capabilities.~~ The membership of the SDT shall not include more than one individual from any one entity.

The RSM will manage the SDT to ensure that the Texas RE Standards Development Process is followed, and that the team membership receives all necessary administrative support. This support typically includes a Texas RE staff member and the Originator if he/she chooses to participate. ~~The ROS appoints~~The RSM may develop additional guidelines to assist the SDT, but as a general rule, the RSM will follow the then-current NERC SDT Guidelines and associated NERC SDT procedures in the management of the regional SDTs. The RSC shall appoint the SDT interim chair (should not be a Texas RE staff person). The SDT will elect the permanent Chair and Vice-chair at its first meeting.

The RSM ~~submits~~shall submit the proposed list of names of the SDT to the ~~ROS~~RSC. The ~~ROS~~RSC will either accept the recommendations of the RSM or modify the SDT slate, as it deems appropriate within 60 days of accepting a SAR for development. ~~Upon approval of the SDT slate by the ROS, the RSC will declare a preliminary date on which the SDT is expected to have ready a completed draft Regional Standard and associated supporting documentation available for comments.~~

### **Step 3 – Work and Work Product of the Standard Drafting Team**

The RSM will collaborate with the SDT to develop a work plan including the establishment of milestones for completing critical elements. This plan ~~is then~~shall be delivered and reported to the RSC ~~for its concurrence to ensure that the objectives established by, and based upon this work plan, the RSC are met.~~shall declare a preliminary date on which a completed draft Regional Standard and associated supporting documentation will be available for comment.

The SDT is to meet, either in person or via electronic means (such as Web Ex) as necessary, establish sub-work teams or groups (made up of members of the SDT) as necessary, and performs other activities to address the parameters of the SAR and the milestone date(s) established ~~by the RSC.~~

The work product of the SDT will consist of the following:

- A draft Regional Standard consistent with the SAR on which it was based.

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- An assessment of the impact of the SAR on neighboring regions, and appropriate input from the neighboring regions if the SAR is determined to impact any neighboring region.
- An implementation plan, including the nature, extent and duration of field-testing, if any.
- Identification of any existing Regional Standard ~~that will~~(or other regional criteria, protocol, or rule) that may be deleted, in part or whole, or otherwise impacted by the implementation of the draft Regional Standard.
- Technical reports and/or work papers that provide technical support for the draft Regional Standard under consideration.
- ~~Document the~~The perceived reliability impact should the Regional Standard be approved.
- A draft of recommended Violation Risk Factors (VRFs) and Violation Severity Levels (VSLs), in coordination with Texas RE staff.

Upon completion of these tasks, the SDT ~~submits~~shall submit these documents to the RSC, which will verify that the proposed Regional Standard is consistent with the SAR on which it was developed.

The SDT shall regularly (at least once each month) ~~informs~~report to and inform the RSC of its progress in meeting athe timely completion of the draft Regional Standard. The SDT may request of the RSC~~scope changes of the SAR,~~ at any point in the Regional Standard Development Process, a change in the scope of the SAR.

The RSC may, at any time, exercise its authority over the Regional Standards Development Process by directing the SDT to move to Step 4 (below) and post the current work product for comment. ~~If there are competing drafts, the RSC may, at its sole discretion, have posted the version(s) of the draft Regional Standard for comment on the Texas RE Website. The RSC may take this step at any time after a SDT has been commissioned to develop the Regional Standard. Any interested entity (including the Originator and the RSM) that contends that the SDT is not effectively progressing on a draft standard or variance may notify the RSC. If any entity contends that the RSC has not taken timely action regarding any requested standard, the entity may file a written complaint with the RSM, who will notify the RSC. If the RSC cannot resolve the complaint within sixty days, the complaining entity may request that its complaint be included on the RSM's report to the Texas RE BOD.~~

#### **Step 4 – Comment Posting Period**

At the direction from the RSC, the RSM ~~then facilitates the posting of~~shall post the draft Regional Standard, VRFs, and VSLs on the Texas RE Website, along with a draft implementation plan and supporting documents, for a 30-day ~~comment period~~public comment period. The posting of draft VRFs and VSLs for stakeholder comment can be deferred until a second or later posting of the draft standard as determined by the standard drafting team; however, it is recommended that the VRFs and VSLs be posted for comment with the entire draft Regional Standard as early in the standard development process as possible. The RSM shall also give notice of the posting to all potentially interested entities inside or outside of the ERCOT region of which Texas RE is aware. The RSM will ~~utilize~~give notice using the typical communication procedures in effect or other means as deemed appropriate.

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Within 30 days of the conclusion of the 30-day comment posting period, the SDT shall convene and consider changes to the draft Regional Standard, the implementation plan, ~~and/or~~ supporting technical documents, VRFs, and/or VSLs, based upon comments received. The SDT shall also prepare a formal written response to every comment received. The SDT may then elect to return to Step 3 to revise the draft Regional Standard, implementation plan, and/or supporting technical documentation. If the comments received indicate that the VRFs or VSLs should be changed to better conform to the criteria for establishing those elements, then the SDT, working with Texas RE staff, may make revisions.

The SDT shall prepare a “modification report” summarizing the comments received, the team's responses to the comments, and the changes made to the draft standard as a result of these comments. The modification report shall also summarize comments that were rejected by the SDT and the reason(s) that these comments were rejected, in part or whole. ~~Responses~~The RSM shall post responses to all comments ~~will be posted~~ on the Texas RE Website no later than the next posting of the revised draft standard.

#### **Step 5 – Posting for Voting by the Registered Ballot Pool**

Upon recommendation of the SDT, and if the RSC concurs that all of the requirements for development of the standard have been met, the RSM shall post the proposed standard and implementation plan for ballot and the VRFs and VSLs for poll on the Texas RE Website. The RSM shall also announce the vote to approve the standard and the opportunity to provide input into the VRFs and VSLs, including when the vote will be conducted and the method for voting. Once the notice for a vote has been issued, no substantive modifications may be made to the proposed standard unless the revisions are posted and a new notice of the vote is issued.

The RSM will schedule a vote among the Registered Ballot Pool, which is to be scheduled to commence no sooner than 15 days and no later than 30 days following this posting.

The RSM shall send a notice to every entity in the Registered Ballot Body (RBB) to notify them of an opportunity to become a part of the Registered Ballot Pool for this Regional Standard or ~~a Regional Variance-Regional Variance~~. Each member of the RBB will be allowed the opportunity to join a single ballot pool to participate in the determination of the approval of the Regional Standard and to provide input to the “non-binding poll” on the VRFs and VSLs associated with the Regional Standard. This notice should precede the start of the ballot by at least 30 days. The purpose of this notice is to establish a ballot pool to participate in the consensus development process and ballot the proposed action. All members of the Registered Ballot Body are eligible to participate in voting on proposed new Regional Standards, Regional Standard revisions, or Regional Standard deletions. There shall be one person designated as the primary RBB representative of each entity. Those members of the RBB that sign up for the Ballot Pool become that pool.

The Texas RE Registered Ballot Pool shall be able to vote on the proposed standard and participate in the non-binding poll on the VRFs and VSLs during a 15-day period. Votes shall be submitted electronically, or through other means as approved by the RSC.

Voting is an advisory to the Texas RE BOD. The voting results ~~will~~shall be composed of only the votes from the Registered Ballot Pool members who have responded within the 15-day

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voting period. Votes may be accompanied by comments explaining the vote, but are not required. All comments shall be responded to and posted to the Texas RE Website prior to going to the RSC or Texas RE BOD.

At least one (1) representative from ~~four (4) of the six (6) of the eight (8) Texas RE Segments~~Sectors must vote to constitute a quorum. Each ~~ERCOT Market Participant Segment~~Sector shall have ~~one (1) Segment Vote~~two (2) Sector votes.

The ~~representative of each Voting ERCOT Member shall receive an equal fraction of its Segment Vote~~“poll” taken on the violation risk factors and violation severity levels is “non-binding.” The ERCOT ISO shall have 1/4 vote—results of this poll will be reported to the Texas RE BOD and considered by Texas RE staff in forming its recommendations. The results of the poll are one element for the Texas RE BOD to consider when making a determination of whether to approve the compliance elements of the standards. The results of the poll do not determine whether these compliance elements are “approved.” In addition, if stakeholder comments submitted with the non-binding poll indicate specific improvements that would improve consensus, then the SDT, working with Texas RE staff, will revise the VRFs and VSLs to reflect stakeholder comments before the VRFs and VSLs are submitted to the Texas RE BOD.

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**Step 6A – Registered Ballot Pool Voting Receives 2/3 or Greater Affirmative Votes of the Texas RE ~~Segments~~Sectors**

If a draft Regional Standard receives 2/3 or greater ~~(4.83 segment votes=2/3 of 7.25)~~ affirmative votes during the 15-day voting period, the RSC will forward the Regional Standard to the Texas RE BOD for action (Step 7).

**Step 6B – Membership Voting Does Not Receive 2/3 Affirmative Votes of the Texas RE ~~Segments~~Sectors**

If a draft Regional Standard does not receive 2/3 or greater ~~(4.83 segment votes=2/3 of 7.25)~~ affirmative votes during the 15-day voting period, the RSC may:

- Revise the SAR on which the draft Regional Standard was based and remand the development work back to the original SDT or a newly appointed SDT. The resulting draft Regional Standard and/or implementation plan ~~will~~shall be posted for a second voting period. The RSC may require a second comment period prior to a second voting period. The second posting of the draft Regional Standard, implementation plan, and supporting documentation shall be within 60 days of the RSC action.
  - If a draft Regional Standard receives 2/3 or greater ~~(4.83 segment votes=2/3 of 7.25)~~ affirmative votes during the second voting period, the RSC will forward to the Texas RE BOD for action (Step 7).
  - If a draft Regional Standard does not receive 2/3 or greater ~~(4.83 =2/3 of 7.25)~~ affirmative votes during the second voting period, the RSC will refer the draft Regional Standard and implementation plan to the Texas RE BOD. The RSC may also submit an assessment, opinion, and recommendations to the Texas RE BOD (Step 7).

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- Direct the existing SDT to reconsider or modify certain aspects of the draft Regional Standard and/or implementation plan. The resulting draft Regional Standard and/or implementation plan ~~will~~shall be posted for a second voting period. The RSC may require a second comment period prior to the second voting period. The second posting of the draft Regional Standard, implementation plan, and supporting documentation shall be within 60 days of the RSC action.
  - If a draft Regional Standard receives 2/3 or greater ~~(4.83=2/3 of 7.25)~~ affirmative votes on the second voting period, the RSC will forward it to the Texas RE BOD for action (Step 7).
  - If a draft Regional Standard does not receive 2/3 or greater ~~(4.83=2.3 of 7.25)~~ affirmative votes on the second voting period, the RSC will refer the draft Regional Standard and implementation plan to the Texas RE BOD. The RSC may also submit an assessment, opinion, and recommendations to the Texas RE BOD (Step 7).
- ~~Recommend termination of all work on the development of the Regional Standard action under consideration and so notify the Texas RE BOD.~~

**Step 7 – Action by the Texas RE Board of Directors**

A proposed Regional Standard and VRFs and VSLs submitted to the Texas RE BOD for action shall be publicly posted at least 10 days prior to action by the Texas RE BOD. At a regular or special meeting, the Texas RE BOD shall consider adoption of the draft Regional Standard ~~and shall approve the associated VRFs and VSLs for any approved Regional Standard.~~ The Texas RE BOD shall be provided with an “informational package” which includes:

- The draft Regional Standard and any modification or deletion of other related existing Regional Standard(s)
- Implementation Plan (including recommending field testing and effective dates)
- Technical Documentation supporting the draft Regional Standard
- The VRFs and VSLs recommended by Texas RE staff
- A summary of the vote and summary of the comments and responses that accompanied the votes and the non-binding poll on the VRFs and VSLs.

The Texas RE BOD will consider the results of the voting and dissenting opinions. The Texas RE BOD will consider any advice offered by the RSC and may:

- Approve the proposed Regional Standard;
- Remand the proposed Regional Standard to the RSC with comments and instructions; or
- Disapprove the proposed Regional Standard without recourse.

Under no circumstances may the Texas RE BOD substantively modify the proposed Regional Standard.

Separately, the Texas RE BOD shall consider approval of the VRFs and VSLs for the Regional Standard. In making its determination, the BOD shall consider the following:

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- The RSC shall present the results of the non-binding poll conducted and a summary of industry comments received on the final posting of the proposed VRFs and VSLs.
- Texas RE staff shall present a set of recommended VRFs and VSLs that considers the views of the standard drafting team, stakeholder comments received on the draft VRFs and VSLs during the posting for comment process, the non-binding poll results, appropriate governmental agency rules and directives, and VRF and VSL assignments for other Regional Standards to ensure consistency and relevance across the entire spectrum of Regional Standards.

Once a Regional Standard ~~is~~and the associated VRFs and VSLs are approved by the Texas RE BOD, the standard and its associated compliance elements will be submitted to NERC for approval and filing with FERC.

#### **Step 8 – Implementation of a Regional Standard**

Upon approval of a draft Regional Standard by the Texas RE BOD, the RSM will notify the membership of such action of the Texas RE BOD through the normal and customary membership communication procedures and processes then in effect. The RSM will take whatever steps are necessary to have a Regional Standard reviewed and/or approved by NERC or any successor organization.

#### **C. Regional Standards Integration**

Once the Regional Standard is approved by FERC, the RSM shall notify the stakeholders of the effective date. The RSM will also notify the Texas RE Compliance Staff for integration into the Texas RE Compliance Monitoring and Enforcement Program.

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## Appendix A – Stakeholder Representation

The Texas RE stakeholder representation for Regional Standards development is as follows:

### **I. ~~Balanced Decision Making in Committees~~**

#### **I. ~~Reliability Standards Committee (RSC)~~**

The Reliability Standards Committee (RSC), comprised of two representatives (except for Sectors with only one member, which will have only one representative) from each of the six Texas RE Segments (Independent Generators, Investor-Owned Utilities, Independent Power Marketers, Independent Retail Electric Providers, Municipally-Owned Utilities, Cooperatives, Consumers, Standards Development Sectors (System Coordination and ERCOT ISO Planning; Transmission; Generation; Cooperative Utility; Municipal Utility; Load-Serving and Marketing), is to provide balanced decision-making and due process for Regional Standards and Regional Variances. The RSC will receive, consider, and vote upon requests for new or revised Regional Standards and Regional Variances. The RSC requires a quorum of at least one representative from at least two-thirds of the Sectors.

The RSC will consider any requests for Regional Standards or Regional Variances from parties that are directly and materially affected by the operation of the ERCOT Region BPS that have first been submitted to the RSM for initial review.

#### **II. ~~Texas RE Board of Directors (BOD)~~**

~~The Texas RE is a division of the Electric Reliability Council of Texas (ERCOT), a Texas non-profit corporation that is the Independent System Operator for the ERCOT Region. ERCOT is governed by a combination independent and balanced stakeholder board, as required by Section 39.151 of the Texas Public Utility Regulatory Act (PURA).~~ The Texas RE Board of Directors (BOD) includes the following individuals/directors:

- Five/Four independent individuals/directors who are unaffiliated with/independent of any electric/ERCOT region market participant and any NERC registered entity and are nominated and elected in accordance with the requirements and procedures specified in the Texas RE Bylaws;
- Two directors from different Sectors who are each approved/selected by the Texas RE Member Representatives Committee as its chair and vice chair;
- CEO of Texas RE;
- Chairman of the Public Utility Commission of Texas (PUCT) for three-year terms;
- Six electric market participant representatives from each of or another PUCT Commissioner designated by the following market segments: Independent Generators, Investor-Owned Utilities, Independent Power Marketers, Independent Retail Electric Providers, Municipally-Owned Utilities, and Cooperatives;
- Three Consumer representatives;
- CEO of ERCOT (as ex officio voting Director); and
- Chairman of the PUCT (as ex officio non-voting Director); and
- Texas Public Counsel from the Office of Public Utility Counsel (OPUC) or another employee of OPUC designated by Public Counsel (as as ex officio non-voting Director).

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~~Although the Texas RE BOD will have the final vote on proposed Regional Standards and Regional Variances, the Texas RE BOD will not have involvement in Regional Standard compliance and enforcement activities.~~

**III. Registered Ballot Body (RBB)**

A Registered Ballot Body (RBB) will be comprised of representatives from ~~the Texas RE Segments (Independent Generators, Investor-Owned Utilities, Independent Power Marketers, Independent Retail Electric Providers, Municipally-Owned Utilities, Cooperatives, Consumers, and ERCOT ISO);~~ all the Sectors, to provide balanced decision-making on Regional Standards and Regional Variances. The RBB is eligible to vote on all proposed new or revised Regional Standards or Regional Variances. The RBB requires a quorum of at least one vote from at least two-thirds of the Sectors. At all meetings, each Sector shall have one (1) Sector vote, and each voting entity is entitled to only vote. Each voting entity participating in the vote, shall receive an equal fraction of its Sector's vote. A Registered Ballot Pool (RBP) will be formed for each proposed Regional Standard or Regional Variance and will be a subset of the RBB. The RBP will vote on a particular standard action.

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## Appendix B – Principles, Characteristics, and Special Procedures

### I. Principles

Due process is the key to ensuring that regional reliability standards are developed in an environment that is equitable, accessible and responsive to the requirements of all interested and affected parties. An open and fair process ensures that all interested and affected parties have an opportunity to participate in the development of a standard.

The Texas RE develops Regional Standards with due consideration of the following principles, in accordance with the steps outlined in this procedure. The process must ensure that any Regional Standard is technically sound and the technical specifications proposed would achieve a valuable reliability objective.

The standards development process has the following characteristics:

- **Open** – Participation in the development of a Regional Standard shall be open to all organizations that are directly and materially affected by ERCOT BPS reliability. There shall be no undue financial barriers to participation. Participation shall not be conditioned upon membership in ERCOT, and shall not be unreasonably restricted on the basis of technical qualifications or other such requirements. Meetings of drafting teams shall be open to ERCOT members and others.
- **Balanced** – The Texas RE Standards Development Process strives to have an appropriate balance of interests and shall not be dominated by any two interest categories and no single interest category shall be able to defeat a matter.
- **Inclusive** – Any entity (person, organization, company, government agency, individual, etc.) with a direct and material interest in the ERCOT BPS in the Texas RE area shall have a right to participate by: a) expressing a position and its basis, b) having that position considered, and c) having the right to appeal.
- **Fair due process** – The Texas RE Standards Development Process shall provide for reasonable notice and opportunity for public comment. At a minimum, the procedure shall include public notice of the intent to develop a standard, a public comment period on the proposed standard, due consideration of those public comments, and a ballot of interested stakeholders.
- **Transparent** – All actions material to the development of regional reliability standards shall be transparent. All standards development meetings shall be open and publicly noticed on the ~~regional entity's Web site~~ [Texas RE Website](#).
- Does not unnecessarily delay development of the proposed Regional Standard.

NERC has adopted reliability principles and market interface principles to define the purpose, scope, and nature of reliability standards. These principles are to be used to guide the development of reliability standards, including regional reliability standards. The NERC Board of Trustees may modify these principles from time to time, as necessary, to adapt its vision for reliability standards.

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Each Regional Standard shall enable or support one or more of the reliability principles, thereby ensuring that each Regional Standard serves a purpose in support of the reliability of the ERCOT BPS. Each Regional Standard shall also be consistent with all of the reliability principles, thereby ensuring that no Regional Standard undermines reliability through an unintended consequence.

While reliability standards are intended to promote reliability, they must at the same time accommodate competitive electricity markets. Reliability is a necessity for electricity markets, and robust electricity markets can support reliability. Recognizing that BPS reliability and electricity markets are inseparable and mutually interdependent, all Regional Standards shall be consistent with NERC's market interface principles. Consideration of the market interface principles is intended to ensure that standards are written such that they achieve their reliability objective without causing undue restrictions or adverse impacts on competitive electricity markets.

## **II. Regional Standard Characteristics and Elements**

### **a. Characteristics of a Regional Standard**

The following characteristics describe objectives to be considered in the development of Regional Standards:

1. **Applicability** – Each Regional Standard clearly identifies the functional classes of entities responsible for complying with the standard, with any specific additions or exceptions noted. Such functional classes include: Reliability Coordinators, Balancing Authorities, Transmission Operators, Transmission Owners, Generator Operators, Generator Owners, Interchange Authorities, Transmission Service Providers, ~~Market Operators~~, Planning Authorities, Transmission Planners, Resource Planners, Load-Serving Entities, Purchasing-Selling Entities, and Distribution Providers. Each Regional Standard identifies the geographic applicability of the standard. A standard may also identify any limitations on the applicability of the standard based on electric facility characteristics.
2. **Reliability Objectives** – Each Regional Standard has a clear statement of purpose that describes how the standard contributes to the reliability of the ERCOT BPS.
3. **Requirement or Outcome** – Each Regional Standard states one or more requirements, which if achieved by the applicable entities, will provide for a reliable BPS, consistent with good utility practices and the public interest.
4. **Measurability** – Each performance requirement is stated so as to be objectively measurable by a third party with knowledge or expertise in the area addressed by that requirement. Each performance requirement has one or more associated measures used to objectively evaluate compliance with the requirement. If performance can be practically measured quantitatively, metrics are provided to determine satisfactory performance.
5. **Technical Basis in Engineering and Operations** — Each Regional Standard is based upon sound engineering and operating judgment, analysis, or experience, as determined by expert practitioners in that particular field.

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6. **Completeness** — Each Regional Standard is complete and self-contained. Supporting references may be provided with standards, but they are not part of the standard and do not impose mandatory requirements.
7. **Clear Language** — Each Regional Standard is stated using clear and unambiguous language. Responsible entities, using reasonable judgment and in keeping with good utility practice, are able to arrive at a consistent understanding of the required performance.
8. **Practicality** — Each Regional Standard establishes requirements that can be practically implemented by the assigned responsible entities within the specified effective date and thereafter.
9. **Consistent Terminology** — To the extent possible, Regional Standards use a set of standard terms and definitions that are approved through the regional standards development procedure.

Although Regional Standards have a common format and process, several types of standards may exist, each with a different approach to measurement:

- **Technical standards** are related to the provision, maintenance, operation, or state of electric systems, and will likely contain measures of physical parameters that are technical in nature.
- **Performance standards** are related to the actions of entities providing for or impacting the reliability of the BPS, and will likely contain measures of the results of such actions or qualities of performance of such actions.
- **Preparedness standards** are related to the actions of entities to be prepared for conditions that are unlikely to occur, but are nonetheless critical to reliability, and will likely contain measures of such preparations or the state of preparedness.

**b. Elements of a Regional Standard**

To ensure uniformity of regional reliability standards, a Regional Standard shall consist of the elements identified in this section of the procedure. These elements are intended to apply a systematic discipline in the development and revision of standards. This discipline is necessary to achieving standards that are measurable, enforceable, and consistent.

All mandatory requirements of a regional reliability standard shall be within the standard. Supporting documents to aid in the implementation of a standard may be referenced by the standard but are not part of the standard itself.

**Table 1 – Performance Elements of a Regional Standard**

<b>Identification Number</b>	A unique identification number assigned in accordance with an administrative classification system to facilitate tracking and reference.
<b>Title</b>	A brief, descriptive phrase identifying the topic of the standard.
<b>Applicability</b>	Clear identification of the functional classes of entities responsible for

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	<p>complying with the standard, noting any specific additions or exceptions.</p> <p>If not applicable to the entire Texas RE area, then a clear identification of the portion of the BPS to which the standard applies. Any limitation on the applicability of the standard based on electric facility requirements should be described.</p>
<b>Effective Date and Status</b>	The effective date of the standard or, prior to approval of the standard, the proposed effective date.
<b>Purpose</b>	The purpose of the standard. The purpose shall explicitly state what outcome will be achieved or is expected by this standard.
<b>Requirement(s)</b>	Explicitly stated technical, performance, and preparedness requirements. Each requirement identifies what entity is responsible and what action is to be performed or what outcome is to be achieved. Each statement in the requirements section shall be a statement for which compliance is mandatory.
<b>Risk Factor(s)</b>	<p><del>The potential reliability significance of each requirement, designated as a High, Medium, or Lower Risk Factor in accordance with the criteria listed below:</del></p> <p><del>A High Risk Factor requirement (a) is one that, if violated, could directly cause or contribute to BPS instability, separation, or a cascading sequence of failures, or could place the BPS at an unacceptable risk of instability, separation, or cascading failures; or (b) is a requirement in a planning timeframe that, if violated, could, under emergency, abnormal, or restorative conditions anticipated by the preparations, directly cause or contribute to BPS instability, separation, or a cascading sequence of failures, or could place the BPS at an unacceptable risk of instability, separation, or cascading failures, or could hinder restoration to normal condition.</del></p> <p><del>A Medium Risk Factor requirement (a) is a requirement that, if violated, could directly affect the electrical state or the capability of the BPS, or the ability to effectively monitor and control the BPS, but is unlikely to lead to BPS instability, separation, or cascading failures; or (b) is a requirement in a planning timeframe that, if violated, could, under emergency, abnormal, or restorative conditions anticipated by the preparations, directly affect the electrical state or capability of the BPS, or the ability to effectively monitor, control, or restore the BPS, but is unlikely, under emergency, abnormal, or restoration conditions anticipated by the preparations, to lead to BPS instability, separation, or cascading failures, nor to hinder restoration to a normal condition.</del></p> <p><del>A Lower Risk Factor requirement is administrative in nature and (a) is a requirement that, if violated, would not be expected to affect the electrical state or capability of the BPS, or the ability to effectively monitor and control the BPS; or (b) is a requirement in a planning time frame that, if violated, would not, under the emergency, abnormal, or restorative conditions anticipated by the preparations, be expected to affect the electrical state or capability of the BPS, or the ability to effectively monitor, control, or restore the BPS.</del></p>
<b>Measure(s)</b>	Each requirement shall be addressed by one or more measures. Measures are used to assess performance and outcomes for the purpose of determining compliance with the requirements stated above. Each

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measure will identify to whom the measure applies and the expected level of performance or outcomes required demonstrating compliance. Each measure shall be tangible, practical, and as objective as is practical. It is important to realize that measures are proxies to assess required performance or outcomes. Achieving the measure should be a necessary and sufficient indicator that the requirement was met. Each measure shall clearly refer to the requirement(s) to which it applies.

**Table 2 – Compliance Elements of a Regional Standard**

The following compliance elements are developed for each standard by the standard drafting team and are balloted with the regional standard:

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<p><b>Compliance Monitoring Process</b></p>	<p>Defines for each measure:</p> <ul style="list-style-type: none"> <li>• <del>The specific data or information that is required to measure performance or outcomes.</del></li> <li>• <del>The entity that is responsible for providing the data or information for measuring performance or outcomes.</del></li> <li>• <del>The process</del> <b>Compliance Enforcement Authority:</b> <u>The entity that is responsible for evaluating data or information to assess performance or outcomes.</u></li> <li>• <b>Compliance Monitoring and Enforcement Processes:</b> <u>The processes</u> that will be used to evaluate data or information for the purpose of assessing performance or outcomes.</li> <li>• <del>The entity that is responsible for evaluating data or information to assess performance or outcomes.</del></li> <li>• <del>The time period in which performance or outcomes is measured, evaluated, and then reset.</del></li> <li>• <b>Data Retention:</b> Measurement data retention requirements and assignment of responsibility for data archiving.</li> <li>• <del>Violation severity levels.</del> <b>Additional Compliance Information:</b> <u>Any other information related to assessing compliance such as the criteria or periodicity for filing specific reports.</u></li> </ul>
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The following compliance elements are developed by the SDT, working with Texas RE staff, but are not considered to be part of the standard. These elements will be posted for stakeholder comment concurrent with the associated requirements as early in the standard development process as possible. The standard drafting team, working with Texas RE staff will respond to all comments received. The drafting team, working with Texas RE staff may make modifications to the Violation Risk Factors (VRFs) and Violation Severity Levels (VSLs) based on stakeholder comments.

A non-binding poll will be conducted to assess stakeholders' agreement with VRFs and VSLs. If stakeholder comments submitted with the non-binding poll indicate specific improvements that would improve consensus, then the SDT, working with Texas RE staff, will revise the VRFs and VSLs to reflect stakeholder comments.

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The RSC will report the results of the poll and a summary of industry comments received on the final posting of the proposed VRFs and VSLs to the Texas RE BOD. Texas RE staff will develop for BOD approval recommended assignments of VRFs and VSLs associated with Regional Standards being presented for approval by the BOD. In developing the recommended VRF and VSL assignments, Texas RE staff will take into consideration the views of the standard drafting team, stakeholder comments received on the draft VRFs and VSLs during the posting for comment process, the non-binding poll results, regulatory directives, and VRF and VSL assignments for other Regional Standards to ensure consistency and relevance across the entire spectrum of NERC Reliability Standards.

The Texas RE BOD has the authority to approve Violation Risk Factors and Violation Severity Levels and may modify the VRF or VSL proposed by Texas RE staff.

<p><b><u>Violation Risk Factors</u></b></p>	<p>The potential reliability significance of each requirement, designated as a High, Medium, or Lower Risk Factor in accordance with the criteria listed below:</p> <p><u>A High Risk Factor requirement (a) is one that, if violated, could directly cause or contribute to bulk power system instability, separation, or a cascading sequence of failures, or could place the bulk power system at an unacceptable risk of instability, separation, or cascading failures; or (b) is a requirement in a planning time frame that, if violated, could, under emergency, abnormal, or restorative conditions anticipated by the preparations, directly cause or contribute to bulk power system instability, separation, or a cascading sequence of failures, or could place the bulk power system at an unacceptable risk of instability, separation, or cascading failures, or could hinder restoration to a normal condition.</u></p> <p><u>A Medium Risk Factor requirement (a) is a requirement that, if violated, could directly affect the electrical state or the capability of the bulk power system, or the ability to effectively monitor and control the bulk power system, but is unlikely to lead to bulk power system instability, separation, or cascading failures; or (b) is a requirement in a planning time frame that, if violated, could, under emergency, abnormal, or restorative conditions anticipated by the preparations, directly affect the electrical state or capability of the bulk power system, or the ability to effectively monitor, control, or restore the bulk power system, but is unlikely, under emergency, abnormal, or restoration conditions anticipated by the preparations, to lead to bulk power system instability, separation, or cascading failures, nor to hinder restoration to a normal condition.</u></p> <p><u>A Lower Risk Factor requirement is administrative in nature and (a) is a requirement that, if violated, would not be expected to affect the electrical state or capability of the bulk power system, or the ability to effectively monitor and control the bulk power system; or (b) is a requirement in a planning time frame that, if violated, would not, under the emergency, abnormal, or restorative conditions anticipated by the preparations, be expected to affect the electrical state or capability of the bulk power system, or the ability to effectively monitor, control, or restore the bulk power system.</u></p>
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<p><b><u>Violation Severity Levels (VSLs)</u></b></p>	<p><u>Defines the degree to which compliance with a requirement was not achieved. Each requirement must have at least one VSL. While it is preferable to have four VSLs for each requirement, some requirements do not have multiple "degrees" of noncompliant performance and may have only one, two, or three VSLs.</u></p> <p><b><u>Lower Violation Severity Level:</u></b></p> <ul style="list-style-type: none"> <li><u>• Missing a minor element (or a small percentage) of the required performance</u></li> </ul> <p><b><u>Moderate Violation Severity Level:</u></b></p> <ul style="list-style-type: none"> <li><u>• Missing at least one significant element (or a moderate percentage) of the required performance.</u></li> </ul> <p><b><u>High Violation Severity Level:</u></b></p> <ul style="list-style-type: none"> <li><u>• Missing more than one significant element (or is missing a high percentage) of the required performance or is missing a single vital component.</u></li> </ul> <p><b><u>Severe Violation Severity Level:</u></b></p> <ul style="list-style-type: none"> <li><u>• Missing most or all of the significant elements (or a significant percentage) of the required performance.</u></li> </ul>
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**Table 3 – Supporting Information Elements**

<b>Interpretation</b>	Any interpretation of regional reliability standard that is developed and approved in accordance with Section VI “Interpretation of Regional Standards” in Appendix B of this procedure, to expound on the application of the standard for unusual or unique situations or to provide clarifications.
<b>Implementation Plan</b>	Each regional reliability standard shall have an associated implementation plan describing the effective date of the standard or effective dates if there is a phased implementation. The implementation plan may also describe the implementation of the standard in the compliance program and other considerations in the initial use of the standard, such as necessary tools, training, etc. The implementation plan must be posted for at least one public comment period and is approved as part of the ballot of the standard.
<b>Supporting References</b>	<p>This section references related documents that support reasons for, or otherwise provide additional information related to the regional reliability standard. Examples include, but are not limited to:</p> <ul style="list-style-type: none"> <li>• Glossary of terms</li> <li>• Developmental history of the standard and prior versions</li> <li>• Notes pertaining to implementation or compliance</li> <li>• Regional Standard references</li> <li>• Regional Standard supplements</li> <li>• Procedures</li> <li>• Practices</li> <li>• Training references</li> <li>• Technical references</li> <li>• White papers</li> <li>• Internet links to related information</li> </ul>

**III. Maintenance of the Texas RE Regional Standards Development Process**

Significant changes to this process which are not made as part of a Texas RE request for an amendment to the Delegation Agreement shall begin with the preparation of a SAR and be addressed using the same procedure as a request to add, modify, or delete a Regional Standard.

The RSC has the authority to make ‘minor’ changes to this process as deemed appropriate by the RSC and subject to the RSC voting practices and procedures then in effect. The ~~Reliability Standards Manager~~RSM, on behalf of the RSC, shall promptly notify the Texas RE BOD of such ~~‘minor’~~ changes to this process for their review and concurrence at the next Texas RE BOD meeting.

**IV. Maintenance of Regional Standards**

The RSM shall ensure that each Regional Standard is reviewed at least once every five years from the effective date of the Standard or the latest revision to the Regional Standard, whichever is the later. The review process shall be conducted by soliciting comments from the

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stakeholders. If no changes are warranted, the RSM shall recommend to the Texas RE BOD that the Regional Standard be reaffirmed. If the review indicates a need to revise or delete a Regional Standard, a SAR shall be prepared and submitted in accordance with the standards development process contained in this process.

#### **V. Urgent Action**

Under certain conditions, the RSC may designate a proposed Regional Standard or revision to a standard as requiring urgent action. Urgent action may be appropriate when a delay in implementing a proposed standard or revision could materially impact reliability of the BPS. The RSC must use its judgment carefully to ensure an urgent action is truly necessary and not simply an expedient way to change or implement a Regional Standard.

An originator ~~preparesshall prepare~~ a SAR and a draft of the proposed standard and ~~submits~~ ~~bothsubmit~~ to the ~~Reliability Standards Manager-RSM~~. The standard request must include a justification for urgent action. The RSM submits the request to the RSC for its consideration. If the RSC designates the requested standard or revision as an urgent action item, then the RSM shall immediately post the draft for pre-ballot review. This posting requires a minimum 30-day posting period before the ballot and applies the same voting procedure as detailed in Step 6.

Any Regional Standard approved as an urgent action shall have a termination date specified that shall not exceed one year from the approval date. Should there be a need to make the standard permanent the standard would be required to go through the full Regional Standard Development Process. All urgent action standards require Texas RE BOD, NERC, and FERC approval, as outlined for standards in the regular process.

Urgent actions that expire may be renewed using the urgent action process again, in the event a permanent standard is not adopted. In determining whether to authorize an urgent action standard for a renewal ballot, the RSC shall consider the impact of the standard on the reliability of the BPS and whether expeditious progress is being made toward a permanent replacement standard. The RSC shall not authorize a renewal ballot if there is insufficient progress toward adopting a permanent replacement standard or if the RSC lacks confidence that a reasonable completion date is achievable. The intent is to ensure that an urgent action standard does not in effect take on a degree of permanence due to the lack of an expeditious effort to develop a permanent replacement standard. With these principles, there is no predetermined limit on the number of times an urgent action may be renewed. However, each urgent action standard renewal shall be effective only upon approval by the Texas RE BOD, and approval by applicable governmental authorities.

Any person or entity, including the drafting team working on a permanent replacement standard, may at any time submit a standard request proposing that an urgent action standard become a permanent standard by following the full standards process.

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## **VI. Interpretations of Regional Standards**

All persons who are directly and materially affected by ERCOT's BPS reliability shall be permitted to request an interpretation of a Regional Standard ~~or Regional Variance (collectively referred to as Regional Standard)~~. The person requesting an interpretation ~~will~~shall send a request to the RSM ~~electronically using the Interpretation Request Form~~ explaining the specific circumstances surrounding the request and what clarifications are required as applied to those circumstances. The request should indicate the material impact to the requesting party or others caused by the lack of clarity or a possibly incorrect interpretation of the standard.

The RSM ~~will~~shall assemble a team with the relevant expertise to address the clarification. The Interpretation Drafting Team (IDT) typically consists of members from the original SDT. The RSM ~~submits~~shall submit the proposed list of names of the IDT to the ~~RQS,RSC~~. The ~~RQSRSC~~ will either accept the recommendations of the RSM or modify the IDT slate.

As soon as practical (not more than 45 days), the team will ~~meet to~~ draft a written interpretation to the Regional Standard addressing the issues raised. Once the IDT has completed a draft interpretation to the Regional Standard addressing only the issues raised, the team will forward the draft interpretation to the RSM. The RSM will forward the draft interpretation to the Texas RE Chief ~~ComplianceExecutive~~ Officer. The Chief ~~ComplianceExecutive~~ Officer ~~is to~~shall assess if the inclusion of the interpretation lessens the measurability of the Regional Standard. ~~In addition the RSM will forward the interpretation to the ROS.~~ Barring receipt of an opinion from ~~either~~ the Chief ~~ComplianceExecutive~~ Officer ~~or ROS~~ within 21 days, that the interpretation lessens measurability or is not technically appropriate for the Regional Standard, ~~respectively~~, the RSM ~~will~~shall forward the interpretation to the RSC. The RSC ~~will~~shall determine if the interpretation is consistent with the Regional Standard. The RSM, on behalf of the RSC, ~~will~~shall forward the interpretation to the Texas RE BOD for informational purposes as being appended to the approved Regional Standard.

Note: In the event that the Chief ~~ComplianceExecutive~~ Officer determines that measurability is lessened, the Chief ~~ComplianceExecutive~~ Officer shall provide an explanation of his/her reasoning to the RSM and IDT for inclusion in a subsequent reversion. ~~The ROS shall in a similar manner provide an explanation of its reasoning if it determines that the interpretation makes the standard technically inappropriate.~~ In either case, the IDT and RSM will continue to re-circulate the interpretation as stated above.

The interpretation ~~will~~shall stand until such time as the Regional Standard is revised through the normal process, at which time the Regional Standard will be modified to incorporate the clarifications provided by the interpretation.

## **VII. Appeals**

Persons who have directly and materially affected interests and who have been or will be adversely affected by any substantive or procedural action or inaction related to the development, approval, revision, reaffirmation, or withdrawal of a Regional Standard shall have the right to appeal. This Appeals Process applies only to this Regional Standards Process.

The burden of proof to show adverse effect shall be on the appellant. Appeals shall be made within 30 days of the date of the action purported to cause the adverse effect, except appeals

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for inaction, which may be made at any time. In all cases, the request for appeal must be made prior to the next step in the process.

The final decisions of any appeal shall be documented in writing and made public.

The Appeals Process provides two levels, with the goal of expeditiously resolving the issue to the satisfaction of the participants:

### **Level 1 Appeal**

Level 1 is the required first step in the appeals process. The appellant submits a complaint in writing to the RSM that describes the substantive or procedural action or inaction associated with Regional Standard or the Regional Standards Process. The appellant describes in the complaint the actual or potential adverse impact to the appellant. Assisted by any necessary staff and committee resources, the RSM shall prepare a written response addressed to the appellant as soon as practical, but not more than 45 days after receipt of the complaint. If the appellant accepts the response as a satisfactory resolution of the issue, both the complaint and response will be made a part of the public record associated with the Regional Standard.

### **Level 2 Appeal**

If after the Level 1 Appeal the appellant remains unsatisfied with the resolution, as indicated by the appellant in writing to the ~~Reliability Standards Manager~~RSM, the RSM shall convene a Level 2 Appeals Panel. This panel shall consist of five members total appointed by the Texas RE BOD. In all cases, Level 2 Appeals Panel Members shall have no direct affiliation with the participants in the appeal.

The RSM shall post the complaint and other relevant materials and provide at least 30 days notice of the meeting of the Level 2 Appeals Panel. In addition to the appellant, any person that is directly and materially affected by the substantive or procedural action or inaction referenced in the complaint shall be heard by the panel. The panel shall not consider any expansion of the scope of the appeal that was not presented in the Level 1 Appeal. The panel may in its decision find for the appellant and remand the issue to the RSC with a statement of the issues and facts in regard to which fair and equitable action was not taken. The panel may find against the appellant with a specific statement of the facts that demonstrate fair and equitable treatment of the appellant and the appellant's objections. The panel may not, however, revise, approve, disapprove, or adopt a Regional Standard. The actions of the Level 2 Appeals Panel shall be publicly posted.

In addition to the foregoing, a procedural objection that has not been resolved may be submitted to Texas RE BOD for consideration at the time the Texas RE BOD decides whether to adopt a particular Regional Standard. The objection must be in writing, signed by an officer of the objecting entity, and contain a concise statement of the relief requested and a clear demonstration of the facts that justify that relief. The objection must be filed no later than 30 days after the announcement of the vote on the Regional Standard in question.

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## Appendix C – Regional Standard Authorization Request Form

The tables below provide a representative example of information in a Regional Standard Authorization Request (SAR). The RSM shall be responsible for implementing and maintaining the applicable form as needed to support the information requirements of the Texas RE Standards Process. The latest version of the form will be downloadable from the Texas RE's Standards Development Web page.

### Standard Authorization Request

#### Texas RE to complete

ID
Authorized for Posting
Authorized for Development

Title of Proposed Regional Standard:
Request Date:

#### SAR Originator Information

<b>Name:</b>	SAR Type (Check one box.)	
Company:	<input type="checkbox"/>	New Regional Standard
Telephone:	<input type="checkbox"/>	Revision to Existing Regional Standard
Fax:	<input type="checkbox"/>	Withdrawal of Existing Regional Standard
Email:	<input type="checkbox"/>	Urgent Action

**Purpose** (Describe the purpose of the proposed regional reliability standard – what the standard will achieve in support of reliability.)

**Industry Need** (Provide a detailed statement justifying the need for the proposed regional reliability standard, along with any supporting documentation.)

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**Brief Description** (Describe the proposed regional reliability standard in sufficient detail to clearly define the scope in a manner that can be easily understood by others.)

**Reliability Functions**

**The Regional Standard will Apply to the Following Functions** (*Check all applicable boxes.*)

<input type="checkbox"/>	Reliability Coordinator	The entity that is the highest level of authority who is responsible for the reliable operation of the BPS, has the Wide Area view of the BPS, and has the operating tools, processes and procedures, including the authority to prevent or mitigate emergency operating situations in both next-day analysis and real-time operations. The Reliability Coordinator has the purview that is broad enough to enable the calculation of Interconnection Reliability Operating Limits, which may be based on the operating parameters of transmission systems beyond any Transmission Operator's vision.
<input type="checkbox"/>	Balancing Authority	The responsible entity that integrates resource plans ahead of time, maintains load-interchange-generation balance within a Balancing Authority Area, and supports Interconnection frequency in real time.
<input type="checkbox"/>	Interchange Authority	Authorizes valid and balanced Interchange Schedules.
<input type="checkbox"/>	Planning Authority	The responsible entity that coordinates and integrates transmission facility and service plans, resource plans, and protection systems.
<input type="checkbox"/>	Transmission Service Provider	The entity that administers the transmission tariff and provides Transmission Service to Transmission Customers under applicable transmission service agreements.
<input type="checkbox"/>	Transmission Owner	The entity that owns and maintains transmission facilities.
<input type="checkbox"/>	Transmission Operator	The entity responsible for the reliability of its "local" transmission system, and that operates or directs the operations of the transmission facilities.
<input type="checkbox"/>	Transmission Planner	The entity that develops a long-term (generally one year and beyond) plan for the reliability (adequacy) of the interconnected bulk power transmission systems within its portion of the Planning Authority Area.
<input type="checkbox"/>	Resource Planner	The entity that develops a long-term (generally one year and beyond) plan for the resource adequacy of specific loads (customer demand and energy requirements) within a Planning Authority Area.
<input type="checkbox"/>	Generator Operator	The entity that operates generating unit(s) and performs the functions of supplying energy and Interconnected Operations Services.
<input type="checkbox"/>	Generator Owner	Entity that owns and maintains generating units.
<input type="checkbox"/>	Purchasing-Selling Entity	The entity that purchases or sells, and takes title to, energy, capacity, and Interconnected Operations Services. Purchasing-Selling Entities may be affiliated or unaffiliated merchants and may or may not own generating facilities.

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<input type="checkbox"/>	Distribution Provider	Provides and operates the “wires” between the transmission system and the customer.
<input type="checkbox"/>	Load-Serving Entity	Secures energy and transmission service (and related Interconnected Operations Services) to serve the electrical demand and energy requirements of its end-use customers.

**Reliability and Market Interface Principles**

**Applicable Reliability Principles** *(Check all boxes that apply.)*

<input type="checkbox"/>	1. Interconnected BPSs shall be planned and operated in a coordinated manner to perform reliably under normal and abnormal conditions as defined in the NERC Standards.
<input type="checkbox"/>	2. The frequency and voltage of interconnected BPSs shall be controlled within defined limits through the balancing of real and reactive power supply and demand.
<input type="checkbox"/>	3. Information necessary for the planning and operation of interconnected BPSs shall be made available to those entities responsible for planning and operating the systems reliably.
<input type="checkbox"/>	4. Plans for emergency operation and system restoration of interconnected BPSs shall be developed, coordinated, maintained, and implemented.
<input type="checkbox"/>	5. Facilities for communication, monitoring, and control shall be provided, used, and maintained for the reliability of interconnected BPSs.
<input type="checkbox"/>	6. Personnel responsible for planning and operating interconnected BPSs shall be trained, qualified, and have the responsibility and authority to implement actions.
<input type="checkbox"/>	7. The security of the interconnected BPSs shall be assessed, monitored, and maintained on a wide-area basis.

**Does the proposed Regional Standard comply with all of the following Market Interface Principles?** *(Select ‘yes’ or ‘no’ from the drop-down box.)*

Recognizing that reliability is a Common Attribute of a robust North American economy:

1. A reliability standard shall not give any market participant an unfair competitive advantage. Yes
2. A reliability standard shall neither mandate nor prohibit any specific market structure. Yes
3. A reliability standard shall not preclude market solutions to achieving compliance with that standard. Yes
4. A reliability standard shall not require the public disclosure of commercially sensitive information. All market participants shall have equal opportunity to access commercially non-sensitive information that is required for compliance with reliability standards. Yes

**Detailed Description** *(Provide enough detail so that an independent entity familiar with the industry could draft a standard based on this description.)*

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**Related Standards**

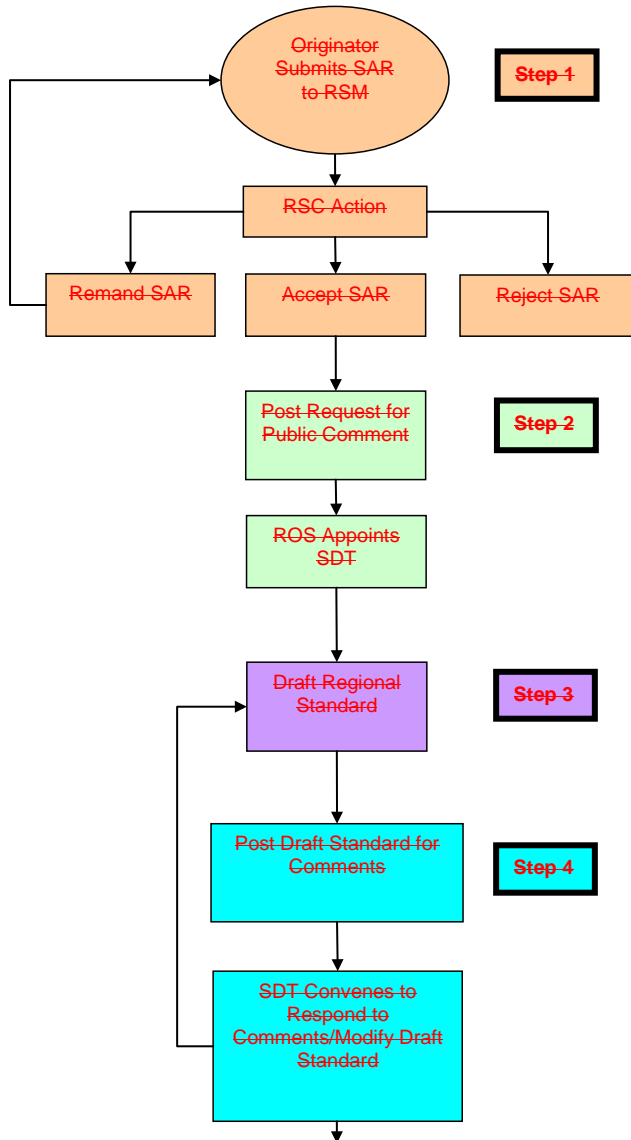
Standard No.	Explanation

**Related SARs**

SAR ID	Explanation

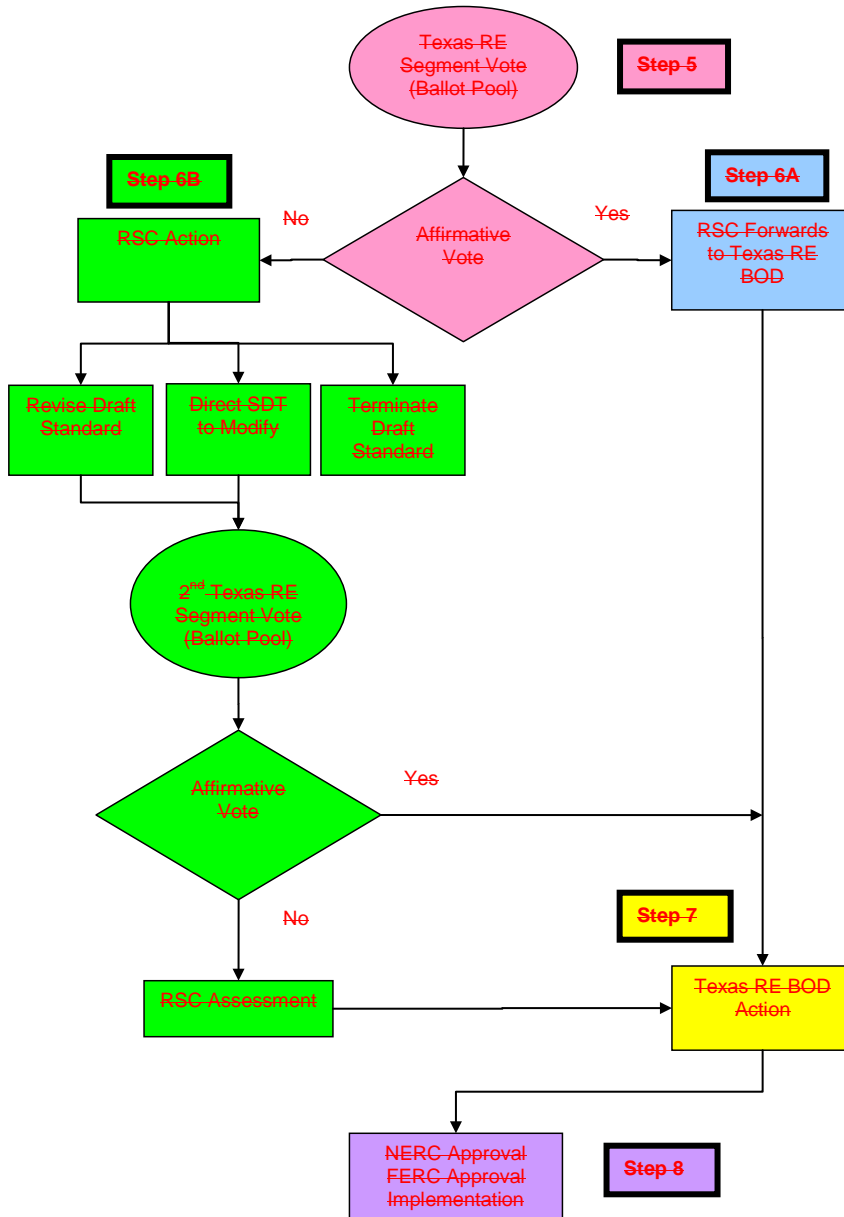
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**Appendix D – Texas RE Standards Development Process Diagram**

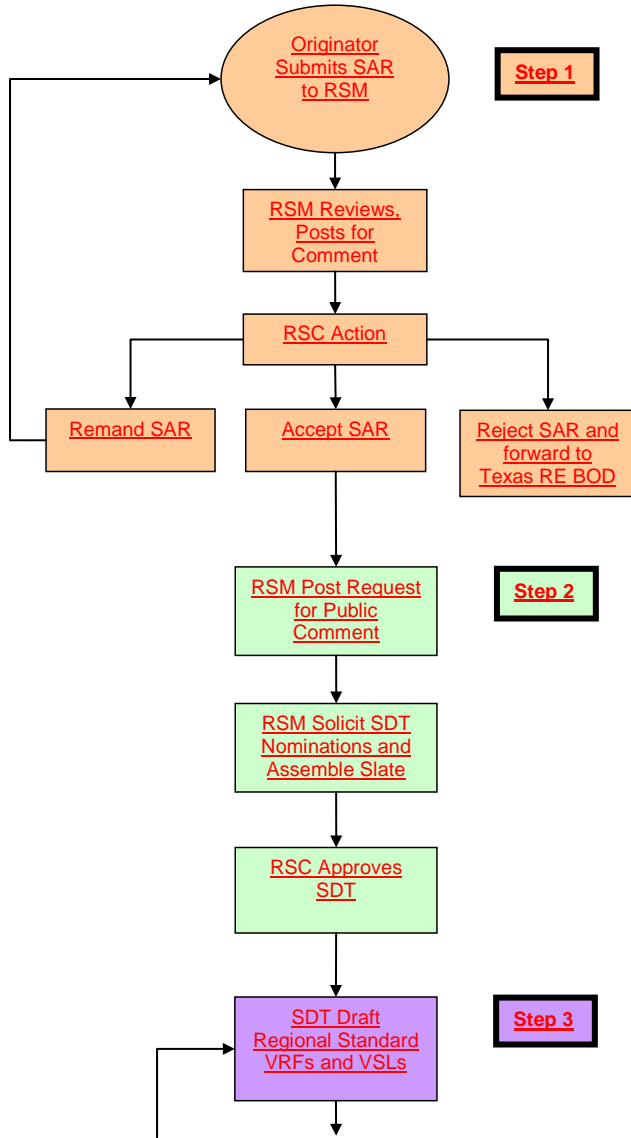


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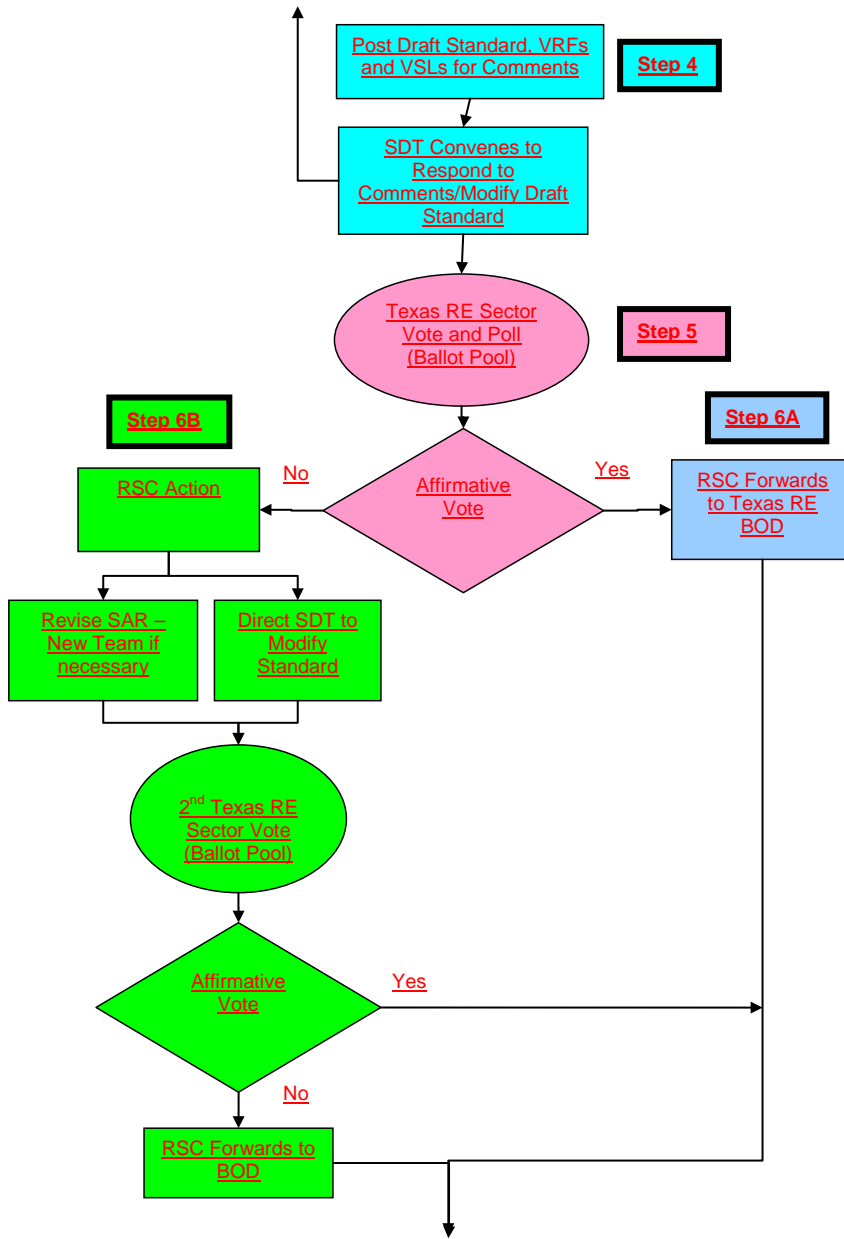




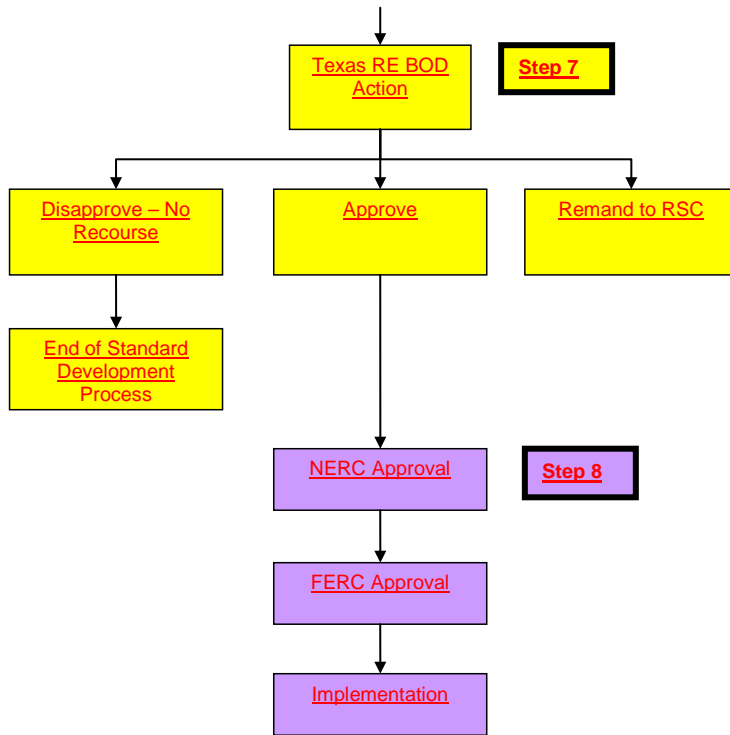
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## EXHIBIT D – COMPLIANCE MONITORING AND ENFORCEMENT PROGRAM

### 1.0 REGIONAL COMPLIANCE MONITORING AND ENFORCEMENT PROGRAM

#### 1.1 Obligations of Texas ~~Regional~~Reliability Entity

The Texas ~~Regional Entity, a division of Electric Reliability Council of Texas~~Entity, Inc. (Texas RE), will implement the NERC Compliance Monitoring and Enforcement Program (Appendix 4C to the NERC Rules of Procedure (NERC CMEP)) to monitor and enforce compliance with Reliability Standards by the owners, operators, and users within Texas RE's geographic boundaries set forth on **Exhibit A** of this Agreement, subject to any deviations from the NERC Compliance Monitoring and Enforcement Program described in Section 1.2 below (the "Compliance Program").

#### 1.2 Deviations from the NERC Compliance Monitoring and Enforcement Program

A. **Hearing Body.** Texas RE will use the Public Utility Commission of Texas (PUCT) as its Hearing Body, and the PUCT (as Hearing Body) will issue recommendations to the Texas RE ~~Chief Compliance Officer who~~Board of Directors ("Board") which will make final decisions following regional hearings of compliance matters. The PUCT has extensive experience in conducting contested case hearings and other adjudicatory proceedings in a manner that assures due process of law to all participants. Texas RE intends to rely upon the PUCT's experience and expertise in conducting the hearing process under the Delegation Agreement. Texas RE believes that it is more efficient and cost-effective to use existing PUCT procedures than to attempt to establish a redundant hearing process within Texas RE. The PUCT is uniquely well-positioned to perform this function for the ERCOT Region since electric utilities operating in the ERCOT Region do not synchronously interconnect with electric utilities operating outside of Texas, and ERCOT market participants have experience in participating in PUCT proceedings.

B. **Public Hearings.** The PUCT as Hearing Body will hold public hearings on all matters referred to it by the Texas RE for hearing and recommendation. The PUCT's performance of Hearing Body responsibilities is fully consistent with the NERC Rules of Procedure and with Section 39.7 of FERC Order 672, with the exception of Section 39.7(b)(4), which requires "[e]ach violation or alleged violation [to] be treated as nonpublic until the matter is filed with [FERC] as a notice of penalty or resolved by an admission ... or by a settlement or other negotiated disposition." Because the PUCT is a "governmental body" under the Texas Open Meetings Act (Texas Government Code § 551.002), the PUCT is required to conduct any deliberations and render a decision in a meeting that is open to the public. The Texas Open Meetings Act also requires that any evidence or other submissions concerning a PUCT hearing, except for information that is confidential or privileged under law, be publicly available. Texas Attorney General opinions have determined that the need to consider confidential information does not justify conducting a closed meeting or executive session. Although PUCT hearings, including those contemplated under this Exhibit D, are conducted as open meetings, steps are taken to prevent the disclosure of confidential information during the hearing process. Direct testimony in such cases is generally presented in written question and

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answer format, with any confidential information redacted, filed under seal and provided to parties pursuant to a protective order. In hearings conducted under these rules, the Hearing Body shall use best efforts to avoid the inadvertent disclosure of confidential information. The Presiding Officer may use the following methods to protect confidential information, in addition to the entry of an appropriate protective order: (1) Requiring the aggregation of confidential information aggregated to eliminate its confidentiality; (2) Permitting or requiring the redaction of testimony where the non-public information is not material to the merits; (3) Closing the public hearings on a temporary basis to those not bound under the terms of any case-specific protective order in place while the specific, confidential data is the subject of testimony or argument; and (4) other reasonable means in the discretion of the Presiding Officer.

Under the Texas Public Utility Regulatory Act (PURA) §39.151(j), market participants in the ERCOT market are required to comply with all scheduling, operating, planning, reliability, and settlement policies, rules, guidelines, and procedures ERCOT establishes. The PUCT is given authority to enforce this obligation through the imposition of penalties, revocation of certifications or other means. In any enforcement proceeding under PURA, PUCT deliberations are conducted in an open meeting in accordance with the procedures outlined above. ERCOT is thus unlike other power regions that may be implementing an enforcement mechanism for the first time. The history of public availability of this information in the ERCOT power region argues in favor of the continued public availability of information considered in enforcement hearings the PUCT conducts as Hearing Body for the Texas RE.

Moreover, elsewhere in Order No. 672, FERC stated that: "If the ERO or a Regional Entity wishes to conduct a public investigation, enforcement audit or permit interventions when determining whether to impose a penalty, the ERO or the Regional Entity must receive advance authorization from the Commission."<sup>1</sup>

In response to the request by Texas RE's request predecessor to be permitted to hold public hearings as outlined herein, FERC issued *In the matter of Delegation Agreement Between the North American Electric Reliability Corporation and Texas Regional Entity, a division of ERCOT*, Docket No. RR07-1-000, *Order Accepting ERO Compliance Filing, Accepting ERO/Regional Entity Delegation Agreements and Accepting Regional Entity 2007 Business Plans*, 119 FERC 61,060 at ¶253 (Issued April 19, 2007)(Delegation Agreement Acceptance Order). The Delegation Agreement Acceptance Order provides for open hearings as requested.

**C. Hearing Administration.** PUCT, as Hearing Body, is authorized to hear cases and render its recommendations through the PUCT Commissioners. The Hearing Body is authorized to use the PUCT staff of Administrative Law Judges (ALJs) and other trained employees to establish the procedures and timelines that will be followed in the regional hearings, including the conduct of hearings and the preparation of draft recommendations. These presiding officers will not, however, have any authority to issue a final recommendation on any alleged violation. The ALJs and staff may preside over hearings before the PUCT, may establish the procedural schedule for these proceedings, take evidence, prepare a draft recommendation, and perform all tasks

<sup>1</sup> Order 672, ¶511.

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delegated from the PUCT, except the final rendition and approval of the final recommendation to be provided to the Chief Compliance Officer.

D. **Detailed Hearing Procedures.** The details of the ~~proposed~~ Texas Regional Reliability Entity Regional Hearing Process are attached hereto as **Attachment 1 and Attachment 2**. **Attachment 1** consists of a summary of the NERC CMEP procedures that must be altered to accommodate Texas RE's request to have the PUCT act as its Hearing Body. **Attachment 1** is a summary of necessary revisions to Attachment 2 of the CMEP, and together with **Attachment 2** hereto and the incorporated PUCT Chapter 22 Procedural Rules, provides the details of the regional hearing process Texas RE has adopted.

In addition to the requested modifications to procedures set forth in Attachment 2 of the CMEP, Texas RE also varies from Section 5.5 of the main body of the CMEP, allowing the ~~Chief Compliance Officer's Board's~~ decision (instead of the hearing body's decision) to be appealed to NERC. This language is contained as subsection 9.2 of **Attachment 1**: "The Registered Entity may appeal the ~~Chief Compliance Officer's Board's~~ decision to NERC, as provided for in NERC Rules of Procedure, Sections 407.3 and 410."

E. **Regional Hearing of Compliance Matters.** Texas RE shall establish the PUCT as the hearing body, with authority to conduct compliance hearings in which a Registered Entity may contest a finding of alleged violation, proposed penalty or sanction, or a proposed mitigation plan. The PUCT will issue a final recommendation to the ~~Chief Compliance Officer Board~~ rather than a final order.

### 1.3 Other Decision-Making Bodies.

Texas RE will not use other decision-making bodies within its compliance program.

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## ATTACHMENT 1 TO EXHIBIT D

### TEXAS RE REGIONAL HEARING PROCESS

#### 1.0 Designation of Hearing Body

All formal compliance hearings shall be held before the Compliance Enforcement Authority's Hearing Body. The Hearing Body shall be the Public Utility Commission of Texas. All hearings shall be conducted under the hearing procedures set forth in Attachment 2 to Exhibit D ("Attachment 2—Rules of Procedure"), supplementing this Attachment 1. As set forth in Attachment 2— Rules of Procedure, the Hearing Body may delegate any hearing-related task to a Presiding Officer, except for the issuance of the final recommendation.

The Compliance Enforcement Authority shall initiate the hearing process following the completion of the Notice of Alleged Violation and proposed sanction and registered entity response processes in accordance with Section 5.1 of the North American Electric Reliability Corporation ("NERC") Compliance Monitoring and Enforcement Program ("NERC CMEP"), as set forth below.

Following the filing of a proceeding contesting an Alleged Violation or a Remedial Action Directive, no person shall engage in ex parte communications with the Hearing Body, including without limitation any appointed Presiding Officer, concerning the matter in dispute until the ~~Chief Compliance Officer's~~ written decision of the Board of Directors or a compliance committee of the Board of Directors ("Board") is issued pursuant to Section 9.1 is appealed or the deadline for filing an appeal has passed; provided, however, that: (a) a member of the Hearing Body or the Presiding Officer may communicate ex parte with another member of the Hearing Body unless prohibited by other law, and (b) a member of the Hearing Body or the Presiding Officer may communicate ex parte with a Commission employee who has not participated in a hearing in the case for the purpose of using the special skills or knowledge of the agency and its staff in evaluating the evidence.

The Hearing Body may rule on all procedural and discovery matters pursuant to Attachment 2—Rules of Procedure.

The Hearing Body may delegate to a single commissioner, a hearings examiner, or an administrative law judge (a "Presiding Officer") the authority to establish the procedures and dates for the presentation of all materials concerning the alleged violation and the power to hear evidence and to issue a draft recommendation, but the Hearing Body may not delegate its authority to issue a final recommendation on the alleged violation to the ~~Chief Compliance Officer~~Board of the Compliance Enforcement Authority.

In accordance with Attachment 2—Rules of Procedure, the Hearing Body may provide for additional procedures as it deems necessary to effectively carry out a compliance hearing. To the extent permitted by law, any provision in this Attachment 1 may be waived, suspended, or modified by the Presiding Officer or the Hearing Body, as defined in Attachment 2—Rules of Procedure §1.1.5, for good cause shown, either



upon the Presiding Officer's or the Hearing Body's own motion or upon the motion of any Party.

## **2.0 Recusal of Member of Hearing Body**

A Hearing Body member, Presiding Officer, or Technical Advisor shall recuse himself or herself if participation in the enforcement proceeding would violate the Compliance Enforcement Authority's Conflict of Interest or Code of Conduct policy.

The Registered Entity may raise an objection to any member of the Hearing Body, a Presiding Officer or Technical Advisor on grounds of a conflict of interest or the existence of other circumstances that could interfere with the that person's impartial performance of his or her duties. Such objections must be provided in writing and filed reasonably in advance of the start of the hearing and the Presiding Officer shall make a decision on the objection promptly. Upon request of the Registered Entity, the Hearing Body (without participation of the Hearing Body member, Presiding Officer, or Technical Advisor) may review the determination and, if so, shall issue a decision on the objection promptly.

## **3.0 Authorized Representatives**

Both the Compliance Enforcement Authority and the Registered Entity shall submit to the Hearing Body the names of the persons authorized to represent them in the Hearing Process pursuant to Attachment 2—Rules of Procedure. Such persons shall be officers or equivalents of the Regional Entity and the Registered Entity that have the authority to act on behalf of the Regional Entity and the Registered Entity, respectively. In addition, a party shall advise the Hearing Body and the other party if the party will be represented by legal counsel.

## **4.0 Statement of Alleged Violation and Response by Registered Entity**

The Registered Entity shall initiate the compliance hearing process in accordance with Section 5.1 of the NERC CMEP and Attachment 2—Rules of Procedure by filing with the Hearing Body Clerk a statement or complaint contesting the written Notice of Alleged Violation and proposed sanction and serving a copy upon the Compliance Enforcement Authority. Specifically, the Registered Entity shall file with the Hearing Body (with service of copies upon the Compliance Enforcement Authority) a written statement of reasons why the Alleged Violation is in error or a written statement of reasons why the proposed penalty or sanction is inappropriate (if applicable in the particular case), along with copies of all documents relied on by the Registered Entity to support its position. If the dispute involves a Registered Entity's proposed mitigation plan ("Registered Entity's Mitigation Proposal") that has not been accepted by the Compliance Enforcement Authority, the Registered Entity may initiate the hearing process by filing a request for hearing with the Hearing Body Clerk and serving a copy upon the Compliance Enforcement Authority.

Within five (5) business days after the request for review of the Alleged Violation, penalty, or mitigation plan or Remedial Action Directive is filed, the Compliance Enforcement Authority's designated representative shall file with the Hearing Body (with copies to the Registered Entity) a copy of the written Notice of the Alleged Violation and proposed sanction that was originally provided to the Registered Entity, along with copies of any non-privileged or non-exempt documents gathered and reviewed by the

Compliance Enforcement Authority in the course of determining an Alleged Violation has occurred and in determining the proposed sanction or penalty.

If the hearing involves the question of whether a Registered Entity's Mitigation Proposal should be accepted, within twenty (20) days after the request for review of the Alleged Violation, penalty, or mitigation plan or Remedial Action Directive is filed, the Compliance Enforcement Authority shall file a report stating why the Registered Entity's Mitigation Proposal was not accepted. If the hearing involves a Registered Entity's Mitigation Proposal, the Registered Entity shall file its proposed Mitigation Plan and supporting information stating why the Mitigation Plan should be accepted within thirty (30) days after the date the request for review of the Alleged Violation, penalty, or mitigation plan or Remedial Action Directive is filed.

## **5.0 Setting of Hearings and Conferences**

The Hearing Body shall set a date for an initial conference within thirty (30) days after the date the request for review of the Alleged Violation, penalty, or mitigation plan or Remedial Action Directive is filed. At the initial conference, the Hearing Body shall establish specific procedures for the hearing including (1) any procedures for exchange of additional documents, (2) any written testimony, (3) the hearing date(s), and (4) dates for any briefs. Subject to Section 6.0 and the Attachment 2—Rules of Procedure, each party shall be entitled to (1) present the testimony of witnesses, (2) cross-examination of opposing witnesses, (3) make an oral presentation of position, and (4) file a written post-hearing brief.

The Hearing Body may hold additional conferences. All notices of conferences and hearings shall set forth the date, time and place of hearing. The Hearing Body shall issue a written order setting forth the agreements and rulings made at each conference.

By agreement of the parties or order of the Hearing Body, any conference or hearing may be conducted via teleconference, except that, subject to section 6.0 of this hearing process, witnesses shall personally appear at the hearing.

All prehearing conferences and hearings shall be open to the public, except when the use of a closed meeting is authorized by Texas law.

## **6.0 Conduct of Hearing**

The hearing will be conducted under the provisions of this section 6.0 and the Attachment 2— Rules of Procedure.

The hearing need not be held on consecutive days, and shall be held at the offices of the Hearing Body unless the Hearing Body decides on a different location after consulting with the parties.

The party requesting transcription of the hearing, the Registered Entity or Compliance Enforcement Authority, will arrange and pay for transcription of the hearing.

The Hearing Body shall direct the direct testimony of any witnesses be in written form in accordance with Attachment 2— Rules of Procedure. All witnesses shall be required to appear in person, unless waived by the parties and the Hearing Body. Motions shall be made and decided, evidence shall be presented, and a record shall be made in accordance with Attachment 2— Rules of Procedure.

## 7.0 Submission of Post-Hearing Briefs

The parties may submit post-hearing briefs on a schedule established by the Hearing Body pursuant to Attachment 2— Rules of Procedure. The parties may, and on request of the Hearing Body shall, submit proposed findings of fact and conclusions of law.

## 8.0 Record of the Compliance Hearing

If applicable, copies of the following documents shall be maintained by the Hearing Body as the record of the hearing process:

- (1) The written notice that a request for review of the Alleged Violation, penalty, or mitigation plan or Remedial Action Directive has been filed with the Hearing Body Clerk;
- (2) The Notice of Alleged Violation and sanction issued by the Compliance Enforcement Authority and the response filed by the Registered Entity, including in each case all attachments thereto and documents provided therewith;
- (3) If the hearing involves a Registered Entity's Mitigation Proposal, (a) the Registered Entity's Mitigation Proposal and supporting information as to why the Registered Entity's Mitigation Proposal should be accepted and (b) the report of the Compliance Enforcement Authority stating why the Registrant's Mitigation Proposal was not accepted;
- (4) Any requests for recusal of a member of the Hearing Body, a Presiding Officer, or a Technical Advisor, and any responses to such requests;
- (5) All motions, notices and responses filed by the parties during the hearing process;
- (6) All documents that set forth or that summarize any ex parte communications;
- (7) All notices and rulings issued by the Hearing Body during the hearing process;
- (8) All interlocutory orders;
- (9) All written testimony and all exhibits received into evidence;
- (10) All written testimony and documentary exhibits that were proffered but not admitted into evidence;
- (11) Any transcript(s);
- (12) The parties' post-hearing briefs, any exceptions to the draft recommendation, any motions for reconsideration or rehearing, and any other post-decision briefing or motion;
- (13) The draft recommendation of the Presiding Officer, if any; and
- (14) The final recommendation of the Hearing Body.

## 9.0 Timing of Written Recommendation to the ~~Chief Compliance Officer~~Board

The Hearing Body shall issue its written final recommendation to the ~~Chief Compliance Officer~~Board within thirty (30) days following the submission of post-hearing briefs, or, if

briefing is waived, following the conclusion of the hearing. The Hearing Body may in its discretion extend the time for the issuance of the written final recommendation to the ~~Chief Compliance Officer~~Board for up to an additional sixty (60) days. The written final recommendation shall state the opinion of the Hearing Body with respect to Alleged Violations of Reliability Standards and proposed penalties or sanctions at issue in the hearing. If the hearing involves a Registered Entity's Mitigation Proposal, the written final recommendation shall either propose acceptance or rejection of the Registered Entity's Mitigation Proposal. If the proposed Registered Entity's Mitigation Proposal is recommended for rejection, the Hearing Body may specify the provisions of an alternative plan of mitigation that the Registered Entity should be required to implement. The written final recommendation shall explain the reasons for the Hearing Body's conclusions and cite the testimony and exhibits relied on by the Hearing Body in reaching its opinions. Copies of the written final recommendation shall be served electronically and by certified mail on the Registered Entity and on the Compliance Enforcement Authority's designated representative at the time it is issued to the ~~Chief Compliance Officer~~Board.

#### **9.1 Written Decision by the ~~Chief Compliance Officer~~Board**

The ~~Chief Compliance Officer~~Board shall issue ~~his~~its written decision accepting, rejecting or modifying the Hearing Body's recommendation, within twenty (20) business days following the issuance of the Hearing Body's written final recommendation. The ~~Chief Compliance Officer~~Board may extend the date for issuance of ~~his~~its written decision for an additional twenty (20) business days in ~~his~~its sole discretion. The ~~Chief Compliance Officer's~~Board's written decision shall state the conclusion of the ~~Chief Compliance Officer~~Board with respect to Alleged Violations of Reliability Standards and proposed penalties or sanctions at issue in the hearing. If the hearing involves a Registered Entity's Mitigation Proposal, the written decision shall either accept or reject the Registered Entity's Mitigation Proposal. If the proposed Registered Entity's Mitigation Proposal is rejected, the ~~Chief Compliance Officer~~Board may specify the provisions of the Registered Entity's Mitigation Proposal that the Registered Entity should be required to implement, together with other mitigation measures the ~~Chief Compliance Officer~~Board shall require. The written decision shall explain the reasons for the ~~Chief Compliance Officer's~~Board's conclusions and cite the testimony and exhibits relied on by the ~~Chief Compliance Officer~~Board in reaching its conclusions. Copies of the written decision shall be served electronically and by certified mail on the Registered Entity, on the Compliance Enforcement Authority's designated representative, and on the Hearing Body.

#### **9.2 NERC Appeal Process**

The Registered Entity may appeal an adverse decision of the ~~Chief Compliance Officer~~Board to NERC, as provided for in NERC Rules of Procedure, Sections 407.3 and 410.

### **10.0 Expedited Hearing Process for Disputes Concerning Remedial Action Directives**

A Registered Entity that disputes a Remedial Action Directive issued by a Compliance Enforcement Authority may request an expedited hearing. To facilitate the expedited hearing, the Compliance Enforcement Authority may request that the Hearing Body

convene for purposes of the expedited hearing process. The following expedited procedures shall be followed:

- (1) The Registered Entity shall file its written response the Remedial Action Directive and request for emergency hearing with the Hearing Body, with a copy to the Compliance Enforcement Authority's designated representative within two (2) business days after receipt of the Remedial Action Directive. The Hearing Body may appoint a Presiding Officer to conduct all proceedings under this Section 10.0, except for the issuance of a final recommendation to the ~~Chief Compliance Officer~~Board.
- (2) The Hearing Body shall be convened for purposes of a prehearing, and if requested, for interim relief, not less than two (2) nor more than five (5) business days after receipt of the Registered Entity's request for a hearing.
- (3) The Hearing Body shall conduct a hearing on the matter, in person or by teleconference, within thirty (30) days after the Hearing Body is convened. At the hearing, the Compliance Enforcement Authority shall explain why the Remedial Action Directive should be complied with, and the Registered Entity shall explain why the Remedial Action Directive is not necessary or should be modified.
- (4) The Hearing Body shall issue a summary written recommendation to the ~~Chief Compliance Officer~~Board within twenty (20) business days following the hearing, stating whether the Registered Entity should or should not be required to comply with the Remedial Action Directive and identifying any modifications to the directive that it finds appropriate.
- (5) The ~~Chief Compliance Officer~~Board shall issue a summary written decision within ten (10) business days following the Hearing Body's issuance of its summary written recommendation, stating whether the Registered Entity shall or shall not be required to comply with the Remedial Action Directive and identifying any modifications to the directive that it finds appropriate.
- (6) If the ~~Chief Compliance Officer's~~Board's summary written decision concludes that the Registered Entity is required to comply with the Remedial Action Directive or any modification to such directive (including adjustments to the timetable for implementation), the Registered Entity shall be required to begin implementing the Remedial Action Directive upon receipt of the summary written decision, if it has not already implemented the Remedial Action Directive.
- (7) Within thirty (30) days following issuance of its summary written decision, the ~~Chief Compliance Officer~~Board shall issue a full written decision regarding the Remedial Action Directive to the requirements of Section 9.0, above, that may be appealed consistent with Section 9.2.
- (8) This Section 10.0 provides procedures for the expeditious determination of the propriety of a contested Remedial Action Directive. Nothing in this Section shall be read to impair the Compliance Enforcement Authority's authority to issue a Notice of Alleged Violation and proposed sanction on alleged violations of standards addressed by a Remedial Action Directive or on other alleged violations occurring contemporaneously with the Remedial Action Directive or at

any other time using the non-expedited procedures of this Attachment 1 or Attachment 2— Rules of Procedure.

## ATTACHMENT 2 TO EXHIBIT D – TEXAS RE RULES OF PROCEDURE

### 1.1 Applicability, Definitions and Interpretation

#### 1.1.1 Procedure Governed

The provisions set forth in this Attachment 2 to the Texas ~~Regional Entity, a division of Electric Reliability Council of Texas~~ Entity, Inc. (“Texas RE” or “Compliance Enforcement Authority”) (“Rules of Procedure”) shall apply to and govern practice and procedure before the Compliance Enforcement Authority and Hearing Board, as defined herein, in hearings in the ERCOT region of the United States conducted into (a) whether Registered Entities within the Compliance Enforcement Authority’s area of responsibility have violated Reliability Standards, and (b) if so, to determine the appropriate Mitigation Plans as well as any remedial actions, penalties or sanctions in accordance with the NERC *ERO Sanction Guidelines* and other applicable penalty guidelines approved by FERC pursuant to 18 C.F.R. Section 39.7(g)(2). Any hearing conducted pursuant to these Rules of Procedure shall be conducted before the Public Utility Commission of Texas (“Commission”), as is further provided herein.

#### 1.1.2 Deviations and Exceptions

- (a) To the extent permitted by law, any provision in these Rules of Procedure may be waived, suspended or modified by the Presiding Officer or the Hearing Body, as defined in Section 1.1.5, for good cause shown, either upon the Presiding Officer’s or the Hearing Body’s own motion or upon the motion of any Party.
- (b) Where an issue is not addressed by the terms of these Rules, the Hearing Body shall use the Chapter 22 Procedural Rules.
- (c) The following provisions of Chapter 22 shall not be applicable to proceedings brought under these Procedural Rules:
  - (1) P.U.C. PROC. R. § 22.32;
  - (2) P.U.C. PROC. R. § 22.33;
  - (3) P.U.C. PROC. R. § 22.35;
  - (4) P.U.C. PROC. R. §§ 22.51-22.54;
  - (5) P.U.C. PROC. R. § 22.56;
  - (6) P.U.C. PROC. R. § 22.71(j);
  - (7) P.U.C. PROC. R. §§ 22.102(a)(3), (4) and (c);
  - (8) P.U.C. PROC. R. §§ 22.103-22.105;
  - (9) P.U.C. PROC. R. §§ 22.125-22.126;
  - (10) P.U.C. PROC. R. § 22.202(e);
  - (11) P.U.C. PROC. R. §§ 22.206-22.207;
  - (12) P.U.C. PROC. R. §§ 22.241-22.246;
  - (13) P.U.C. PROC. R. §§ 22.251-22.252;

- (14) P.U.C. PROC. R. § 22.263(d); and
  - (15) P.U.C. PROC. R. §§ 22.281-22.284.
- (d) For purposes of this Attachment 2—Rules of Procedure, the following shall supplement the terms of a Chapter 22 Rule, as specified:
- (1) P.U.C. PROC. R. § 22.31. The following subsection (d) shall be added:
    - “(d) The Hearing Body Clerk shall designate each proceeding brought under these rules as a docket.”
  - (2) P.U.C. PROC. R. § 22.72(e). The following sentence shall be added at the end of this subsection:
    - “A party or its authorized representative shall also provide in its signature block one or more electronic mail addresses to which service may be made.”
  - (3) P.U.C. PROC. R. § 22.74(b). The following sentence shall be added at the end of this subsection:
    - “(b) . . . Service may be made by electronic mail to the email address included in a signature block of a party or its authorized representative.
- \* \* \*
- “(4) Service by email shall be complete upon transmission of the communication from the electronic mail server of the serving party.”
- (e) All proceedings filed under these rules shall be conducted under the Commission’s Chapter 22 Procedural Rules, as modified herein, but may not be referred to the State Office of Administrative Hearings.

**1.1.3 Standards for Discretion**

The Hearing Body’s discretion under these Rules of Procedure shall be exercised to accomplish the following goals:

- (a) Integrity of the Fact-Finding Process - The principal goal of the hearing process is to assemble a complete factual record to serve as a basis for a correct and legally sustainable ruling, decision or order.
- (b) Fairness - Persons appearing in Compliance Enforcement Authority proceedings should be treated fairly. To this end, Parties should be given fair notice and opportunity to present explanations, factual information, documentation and legal argument. Action shall be taken as necessary to eliminate any disadvantage or prejudice to a Party that would otherwise result from another Party’s failure to act diligently and in good faith.
- (c) Independence - The hearing process should be tailored to protect against undue influence from any Person, Party or interest group.



- (d) Balanced Decision-Making - Decisions should be based solely on the facts and arguments of record in a proceeding and by individuals who satisfy the Compliance Enforcement Authority's conflict of interest policy.
- (e) Impartiality - Persons appearing before the Hearing Body should not be subject to discriminatory or preferential treatment. Registered Entities should be treated consistently unless a reasonable basis is shown in any particular proceeding to depart from prior rulings, decisions or orders.
- (f) Expedition - Proceedings shall be brought to a conclusion as swiftly as is possible in keeping with the other goals of the hearing process.

#### **1.1.4 Interpretation**

- (a) These Rules of Procedure shall be interpreted in such a manner as will aid in effectuating the Standards for Discretion set forth in Section 1.1.3, and so as to require that all practices in connection with the hearings shall be just and reasonable.
- (b) Unless the context otherwise requires, the singular of a term used herein shall include the plural and the plural of a term shall include the singular.
- (c) To the extent that the text of a rule is inconsistent with its caption, the text of the rule shall control.

#### **1.1.5 Definitions**

- (a) Unless otherwise defined, as used in these Rules of Procedure (i) definitions in Section 1.1 of the NERC Compliance Monitoring and Enforcement Program shall apply, and (ii) the following terms shall have the following meanings:

~~"Board" means the Board of Directors of Texas Reliability Entity.~~

"Bulk-Power System," for the purposes of these Rules of Procedure, has the meaning set forth in 16 U.S.C. §824o(a)(1).

"Chapter 22" or "Commission Procedural Rules" shall mean the Chapter 22 Procedural Rules of the Commission, 16 TEX. ADMIN. CODE ch. 22., and be cited as "P.U.C. PROC. R. § []."

~~"Chief Compliance Officer" means the Chief Executive Officer of the Texas Regional Entity.~~

"Commission" means the Public Utility Commission of Texas.

"Compliance Enforcement Authority Clerk," as designated by the Compliance Enforcement Authority.

"Compliance Enforcement Authority" means the Regional Entity, by and through its Chief ~~Compliance~~Executive Officer.

"Compliance Enforcement Authority's area of responsibility" means the Texas ~~Regional~~Reliability Entity's corporate region.

"Critical Energy Infrastructure Information" means specific engineering, vulnerability, or detailed design information about proposed or existing critical infrastructure that: (i) relates details about the production,

generation, transportation, transmission, or distribution of energy; (ii) could be useful to a person in planning an attack on critical infrastructure; and (iii) does not simply give the location of the critical infrastructure.

“Critical infrastructure” means existing and proposed systems and assets, whether physical or virtual, the incapacity or destruction of which would negatively affect security, economic security, public health or safety, or any combination of those matters.

“Cybersecurity Incident” means a malicious act or suspicious event that disrupts, or was an attempt to disrupt, the operation of those programmable electronic devices and communications networks including hardware, software, and data that are essential to the Reliable Operation of the Bulk-Power System.

“ERO” means the Electric Reliability Organization, currently the North American Electric Reliability Corporation, or any successor organization, certified by FERC pursuant to 18 C.F.R. §39.3.

“FERC” means the Federal Energy Regulatory Commission.

“Filing Clerk” or “Hearing Body Clerk” means the Central Records filing clerk of the Public Utility Commission of Texas.

“Hearing Body” means the Public Utility Commission of Texas.

“Mitigation Plan” means an action plan developed by a Registered Entity to (i) correct a violation of a Reliability Standard and (ii) prevent reoccurrence of the violation. A Mitigation Plan is required when a Registered Entity violates a Reliability Standard as determined by any means including Compliance Enforcement Authority Decision, settlement agreement, or otherwise.

“Party” means any Person who is allowed or required to participate in a proceeding conducted pursuant to these Rules of Procedure. The term “Party” as used herein shall include the members of the Compliance Staff of the Compliance Enforcement Authority that participate in a proceeding.

“Penalty” as used herein includes all penalties and sanctions that may be imposed pursuant to 16 U.S.C. §824o-1 and applicable regulations, including but not limited to a monetary or non-monetary penalty; a limitation on an activity, function, operation or other appropriate sanction; or the addition of the Registered Entity to a reliability watch list composed of major violators. Penalties must be within the range set forth in the NERC *ERO Sanction Guidelines* approved by FERC pursuant to 18 C.F.R. Section 39.7(g)(2), and shall bear a reasonable relation to the seriousness of a Registered Entity’s violation and take into consideration any timely efforts made by the Registered Entity to remedy the violation.

“Person” means any individual, partnership, corporation, limited liability company, governmental body, association, joint stock company, public trust, organized group of persons, whether incorporated or not, or any other legal entity.

“Presiding Officer” or “Hearing Examiner” means an individual employed or contracted by the Hearing Body and designated by the Hearing Body to preside over hearings conducted pursuant to these Rules of Procedure.

“North American Electric Reliability Council” or “NERC” means North American Electric Reliability Corporation.

“Registered Entity” means each user, owner and operator of the Bulk-Power System within the United States that is required to register with the Regional Entity pursuant to 18 C.F.R. § 39.2.

“Regional Entity” means Texas Regional Reliability Entity or Texas RE, ~~a division of Electric Reliability Council of Texas.~~

“Reliable Operation” has the meaning set forth in Section 215 of the Federal Power Act.

“Reliability Standards” means standards approved by FERC pursuant to Section 215 of the Federal Power Act and 18 C.F.R. Section 39.5, as such standards are authorized and in effect from time to time.

“Remedial Action Directive” means an action (other than a penalty or sanction) required that (1) is to bring a Registered Entity into compliance with a Reliability Standard or to avoid a Reliability Standard violation, and (2) is immediately necessary to protect the reliability of the Bulk Power System from an imminent threat of harm.

“Respondent” means the Registered Entity who is the subject of the Notice of Alleged Violation or contested Mitigation Plan that is the basis for the proceeding, whichever is applicable.

“Staff” or “Compliance Staff” means individuals employed or contracted by the Compliance Enforcement Authority who have the authority to make initial determinations of Registered Entities’ compliance with or violation of the Reliability Standards and associated Penalties and Mitigation Plans.

“Technical Advisor” means any Staff member, Hearing Body employee, third-party contractor, or industry stakeholder who satisfies the Compliance Enforcement Authority’s conflict of interest policy and is selected to assist in a proceeding by providing technical advice to the Presiding Officer and/or the Hearing Body.

- (b) For purposes of this Attachment 2--Rules of Procedure and in application to any proceeding brought under these rules, the following terms shall be substituted for the term used in a Chapter 22 rule:

“Administrative law judge” shall mean and refer to the defined term “Presiding Officer.”

“Central records” shall mean “Hearing Body Clerk.”

“Final order” shall mean “final recommendation.”

“Proposal for decision” shall mean “draft recommendation.”

“Public utility” shall mean “party.”

- (c) If a term is defined in this Attachment 2—Rules of Procedure and in Chapter 22, the meaning expressed herein shall prevail.

#### **1.1.6 Interventions Are Not Permitted**

The Respondent(s) and Compliance Staff shall be Parties to the proceeding. Unless otherwise authorized by FERC, no other Persons shall be permitted to intervene or otherwise become a Party to the proceeding.

#### **1.1.7. Proceedings Open to the Public**

All hearings, oral arguments, and meetings of the Hearing Body shall be open to the public, and every notice, ruling, order or any other issuance of the Presiding Officer or Hearing Body, and any transcript, made in any proceeding shall be publicly released unless a Party has requested that it be kept confidential in accordance with Texas law, and the Presiding Officer or Hearing Body determines that the information should not be released publicly.

#### **1.1.8 Numbering and Docketing System**

The Staff of the Compliance Enforcement Authority shall maintain a system of numbering proceedings before they are sent to the Hearing Body for a hearing under these procedures. A numbered proceeding shall be created within the Compliance Enforcement Authority upon the issuance of a notice of Alleged Violation. Unless NERC provides a different docketing system that will be used uniformly by the Compliance Enforcement Authority, proceeding numbers shall be assigned sequentially beginning with a two digit number that relates to the last two digits of the year in which the docket is initiated, followed by a dash ("-"), followed by the letters "[RE]", followed by a dash ("-"), followed by a four digit number that will be "0001" on January 1 of each calendar year and ascend sequentially until December 31 of the same calendar year. If the proceeding is not settled and becomes a contested matter before the Hearing Body, the Hearing Body's numbering and docketing system shall govern the tracking of such filings while under the Hearing Body's administration.

### **1.2 Hold Harmless**

A condition of a Party invoking these Rules of Procedure and participating in a hearing is that the Party agrees that the Compliance Enforcement Authority, including without limitation its members, board of directors or trustees, compliance committee, any other committees or subcommittees, Staff, contracted employees, attorneys and experts (outside or in-house), Hearing Body members, Presiding Officers and Technical Advisors, shall not be liable, and shall be held harmless against the consequences of, or any action or inaction arising out of, the hearing process, or of any agreement reached in resolution of a dispute or any failure to reach agreement as a result of a proceeding. This "hold harmless" provision does not extend to matters constituting gross negligence, intentional misconduct, or breach of confidentiality.

### **1.3 Initiation of the Hearing Process**

Except when contesting a Remedial Action Directive pursuant to section 1.5 of these Rules of Procedure, a Registered Entity may file a response or complaint with the Compliance Enforcement Authority and the Filing Clerk requesting a hearing if:

- (a) The Registered Entity contests a Notice of Alleged Violation as to the existence or scope of the alleged violation, the proposed Penalty, or both; or
- (b) The Registered Entity contests the Compliance Enforcement Authority's rejection of Registered Entity's Mitigation Proposal in whole or in part.

A Registered Entity must file its hearing request within forty (40) days after (i) the Registered Entity files its response to the notice of Alleged Violation; or (ii) the Compliance Staff submits to the Registered Entity its statement identifying a disagreement with the Registered Entity's Mitigation Proposal, whichever is applicable. If the Registered Entity does not file a hearing request within the time period set forth in this Section, then the Registered Entity will be deemed to have agreed and waived any objection to the proposed Penalty, the Alleged Violation or the Compliance Staff's stated position on the Registered Entity's Mitigation Proposal, whichever is applicable.

Either a notice of Alleged Violation issued to a Registered Entity or a Staff statement setting forth its disagreement with a Registered Entity's Mitigation Proposal shall clearly state that the Registered Entity has the option to contest the Alleged Violation, proposed Penalty, or both, or the Compliance Staff's position on the Registered Entity's Mitigation Proposal.

A Registered Entity shall attach to a request for hearing whichever of the following are applicable:

- (a) The Registered Entity's Self-Reporting of a violation;
- (b) The Notice of Alleged Violation and the Registered Entity's response thereto; or
- (c) The Registered Entity's Mitigation Proposal and the Compliance Staff's statement identifying its disagreement with the Registered Entity's Mitigation Proposal.

#### **1.4 General Hearing Procedure**

Except as otherwise specified in this Attachment 2—Rules of Procedure, the procedures and timelines set forth in Chapter 22 shall govern the conduct of a hearing arising under these rules.

##### **1.4.1 Hearing Body**

The Hearing Body, consisting of a quorum of the Commission, shall hear all proceedings brought under these Rules of Procedure, unless the Commission elects to delegate all or part of the proceeding to a Presiding Officer who is a member of the Commission Staff. The Hearing Body is vested with the exclusive authority to issue a final recommendation to the ~~Chief Compliance Officer~~Board for the resolution of the issue(s) presented. The following procedures shall also apply:

- (a) The Hearing Body or any individual member thereof may, but is not required to, attend any prehearing conference, status hearing or evidentiary hearing, or to submit questions to the Presiding Officer to submit to a Party or any witness at any such hearing. No more than one member of the Hearing Body may be present for any prehearing

conference, status hearing, or evidentiary hearing unless the Hearing Body has complied with the Open Meetings requirements of Texas law.

- (b) The Hearing Body shall resolve the issue(s) in every hearing through the issuance of a final recommendation to the ~~Chief—Compliance Officer~~Board. In issuing a final recommendation to the ~~Chief Compliance Officer~~Board, the Hearing Body shall consider the Presiding Officer's draft recommendation but shall have the authority to reject, modify or approve the draft recommendation in whole or in part in issuing its final recommendation.

#### **1.4.2 Technical Advisor**

The Presiding Officer or the Hearing Body may elect to use one or more Technical Advisors to assist in any proceeding. Such an election may be made at any time during the course of a proceeding. Any Staff member who serves as a Technical Advisor shall not have been involved in or consulted at any time in regard to any Compliance Staff investigation, initial determination of Alleged Violation or Penalty, or assessment of a Registered Entity's proposed Mitigation Plan that resulted in the proceeding in which technical advice would be rendered, and shall not otherwise participate in the proceeding on which such technical advice would be rendered.

If the Presiding Officer or Hearing Body uses a Technical Advisor to assist in any hearing, the Presiding Officer or Hearing Body shall disclose the identity, employment history and professional affiliations of the Technical Advisor within two (2) days of the Technical Advisor's assignment to the proceeding, and Parties to the hearing may raise objections to the Technical Advisor's participation within 10 business days of disclosure.

#### **1.5 Initiation of Remedial Action Directive Hearing**

Staff may issue a Remedial Action Directive to a Registered Entity at any time, including during any proceeding related to an alleged violation of a Reliability Standard. The Compliance Enforcement Authority will notify NERC within two (2) days after its Staff issues a Remedial Action Directive.

The Registered Entity may contest the Remedial Action Directive in accordance with these Rules of Procedure and Delegation Agreement, Exhibit D, Attachment 1, §10, by filing a written notice with the Compliance Enforcement Authority that states that the Registered Entity contests the Remedial Action Directive and that the Registered Entity requests a Remedial Action Directive hearing. The Registered Entity shall attach a copy of the Remedial Action Directive to its written notice. The Registered Entity must provide such notice within two (2) business days following issuance of the Remedial Action Directive. If the Registered Entity does not give written notice to the Compliance Enforcement Authority within the required time period, the Registered Entity shall be deemed to have waived its right to contest the Remedial Action Directive.

The Registered Entity shall simultaneously file with the Hearing Body Clerk a copy of the notice that it is contesting the Remedial Action Directive.

The Hearing Body Clerk shall assign a docket number, and issue a Notice of Hearing that sets forth the date, time and place at which the hearing will convene.

## Exhibit E — Funding

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### 1. Scope of activities funded through the ERO funding mechanism

The Texas ~~Regional Entity Division of Electric~~ Reliability Council of Texas Entity, Inc. ("Texas RE") shall include in its annual budget submission to the North American Electric Reliability Corporation ("NERC") amounts for costs it will incur in support of delegated activities and activities that are in furtherance of NERC's responsibilities as the ERO under the Act, as specified in the NERC Rules . These activities shall include:

- Reliability Standard Development (Section 300)
- Compliance Enforcement (Section 400)
- Organization Registration and Certification (Section 500)
- ~~Reliability Readiness Evaluation and Improvement (Section 700)~~
- Reliability Assessment and Performance Analysis (Section 800) (including necessary data gathering activities)
- Training and Education (Section 900)
- Situational Awareness and Infrastructure Security (Section 1000)

### 2. Allocation of Costs

Texas RE shall allocate its dues, fees, and other charges for its activities pursuant to the delegation agreement among all load-serving entities on the basis of net-energy-for load, unless a different method or methods of allocating and calculating such dues, fees, or charges has been submitted to and approved by NERC and the Commission, in accordance with Section 8(b) of the delegation agreement. Texas RE shall submit to NERC annually at the same time it submits its budget request a list of the load-serving entities within its geographic boundaries and their proportionate net-energy-for load or such other data or information as is necessary to allocate and calculate Texas RE's dues, fees, or charges under any other method of allocation or calculation that is to be used.

### 3. Collection of Funding

(a) NERC, Texas RE, and Electric Reliability Council of Texas, Inc. ("ERCOT") have agreed that ERCOT shall act as the billing agent on behalf of NERC to bill and collect assessments for the costs of activities under the Act from load-serving entities, ERCOT Qualified Scheduling Entities ("QSEs"), or such other entities as agreed by NERC, Texas RE, and ERCOT. ERCOT and Texas RE agree that ERCOT shall: (i) issue all invoices to load-serving entities, QSEs, or other agreed entities in a prompt and timely manner after receipt from NERC of the information needed to issue the invoice; (ii) exercise commercially reasonable efforts to collect invoices that are not paid as of the due date(s); and (iii) transfer all funds collected to NERC quarterly, in a timely manner. Texas RE shall confirm that ERCOT complies with these obligations, and shall notify NERC promptly of any compliance failures.

NERC shall submit invoices on a quarterly basis to ERCOT covering the NERC and Texas RE budgets approved for collection for the ERCOT region. ~~Within~~ No later than the later of (i) the first day of the calendar quarter and (ii) ten (10) business days after receiving this quarterly invoice, ERCOT will electronically ~~transfer~~ transmit to NERC the amount reflected in the invoice, in immediately available funds, unless ERCOT has been unable to collect and does not reasonably believe it can collect such amount from load-serving entities, QSEs, or other agreed entities, after exercise of commercially reasonable efforts. On the same day as ERCOT makes each electronic

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transfer of funds to NERC, ERCOT ~~or Texas RE~~ will send an e-mail to the Chief Financial Officer of NERC and the Chief Executive Officer of Texas RE either (i) confirming that the full invoiced amount has been electronically transmitted to NERC or (ii) stating that ERCOT is unable to collect the full amount of the NERC invoice and reasonably believes that it will not be able to collect the full amount of the NERC invoice from load-serving entities, QSEs, or other agreed entities after exercise of commercially reasonable efforts and confirming the amount that has been transmitted to NERC. In the event ERCOT is unable to transfer to NERC the full invoiced amount, ERCOT shall also send to NERC and Texas RE a listing of any load-serving entity, QSE or other agreed entity that has not fully paid its load ratio share and an itemization of the collections that ERCOT received, by entity and amount. ERCOT will maintain a detailed list of the entities from which payments were collected and the amount collected from each entity.

ERCOT and Texas RE agree that they shall not in any way use their position as billing or collection agent for NERC to attempt to influence NERC's policies or decisions on matters relating to adoption of reliability standards (including regional standards and differences), administration of the compliance monitoring and enforcement matters, determination and imposition of penalties and sanctions, budgeting matters including review and approval of Texas RE's budgets and business plans, or any other NERC decisions, including by issuing invoices, engaging in collection activities or transferring funds collected to NERC in an untimely manner or other than in accordance with this agreement. ERCOT's confirmation of its agreements as set forth in this Paragraph 3 is attached hereto as Attachment 1.

NERC shall pursue any non-payments and shall request assistance from applicable governmental authorities as necessary to secure collection.

(b) Upon approval of the annual funding requirements by applicable governmental authorities, NERC shall fund Texas RE's costs identified in Section 1 of this Exhibit E in four equal quarterly payments, within ten (10) business days after receiving the remittance from ERCOT.

#### 4. Application of Penalties

All penalty monies received by Texas RE, other than penalty monies ~~it receives~~received from ~~its an operational function or division or~~ affiliated ~~operational~~ entity, ~~ERCOT, of Texas RE~~, shall be applied as a general offset to the entity's budget requirements for U.S.-related activities under this Agreement for the subsequent fiscal year. Funds from financial penalties shall not be directly applied to any program maintained by the investigating entity. Any penalty monies received ~~by Texas RE~~ from ~~its an operational function or division or~~ affiliated ~~operational~~ entity, ~~ERCOT, of Texas RE~~ shall be transmitted to or retained by NERC and shall be used by NERC as a general offset to NERC's budget for its activities as the ERO under the Act for the following year. Provided, however, that the allocation between NERC and Texas RE of any penalty monies paid by ERCOT after the effective date of this Agreement in respect of violations of reliability standards occurring before the effective date of this Agreement, shall be agreed to by NERC and Texas RE in a separate document.

#### 5. Description of Non-Statutory Activities

In addition to its delegated activities and activities that are in furtherance of NERC's responsibilities as the ERO under the Act, as specified in Section 1 of this Exhibit E (such functions and activities referred to in this Section 5 as "statutory activities"), Texas RE ~~shall~~will also continue to perform the following other functions and activities (referred to in this Section 5 as "non-statutory activities"~~"); at least through December 31, 2010:~~

- Investigation of market participants' compliance with the ERCOT Protocols and Operating Guides which contain the Regional criteria for planning and operating reliable interconnected bulk electrical systems in the ERCOT region, and assistance or cooperation in enforcement of violations ("ERCOT Compliance Activities"), so long as the ERCOT Compliance Activities do not conflict with the statutory activities, including: (i)

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maintaining a record of all material occurrences of non-compliance with ERCOT procedures and tracking recurrence of such material occurrences of non-compliance; (ii) promptly providing information to and responding to questions from market participants to allow the market participant to understand and respond to alleged material occurrences of non-compliance with ERCOT procedures; (iii) maintaining a record of the resolutions of such material occurrences of non-compliance and of corrective actions taken by the market participants in each instance; and (iv) informing the Public Utility Commission of Texas Staff immediately if the material occurrence of non-compliance is not resolved.

- Development of policies, processes, standards, and procedures to implement the ERCOT Compliance Activities.

~~ERCOT, of which Texas RE is an independent division, operates as an independent system operator under the jurisdiction of the Public Utility Commission of Texas.~~

Texas RE shall employ the following methods and procedures to (i) keep its funding mechanisms for its statutory activities separate from its funding mechanisms for its non-statutory activities, and (ii) record the costs and expense it incurs in the performance of its non-statutory functions separately from the costs and expense it incurs in the performance of its statutory functions:

- A. Texas RE segregates the funding for its statutory activities and non-statutory activities by recording the funding transactions in separate and distinct general ledger accounts, in accordance with Generally Accepted Accounting Principles.
- B. Texas RE utilizes and must maintain a time recording and expense management system under which -employee time and expenses incurred in the conduct of non-statutory activities will be tracked to ensure that they are not funded by NERC remittances intended for the funding of statutory activities.
- C. Texas RE has adopted a detailed system of Account Codes, Department Codes and Activity Codes which are used in recording expenses. The Activity Codes are specific to statutory activities and non-statutory activities. The Texas RE Activity Codes are modeled on the NERC Functional Categories. Texas RE -shall use Department Codes that are unique to Texas RE- to record all costs and expenses incurred by Texas RE for statutory activities and non-statutory activities.
- D. Texas RE shall use Activity Codes to appropriately track its costs for statutory activities separately from its costs for non-statutory activities.
- E. Where employee time or an expense affects multiple activities, Texas RE will use an accurate basis of allocation of the time or expense between the activities being performed based on specific metrics, such as time tracking, data observations or total cost input. Total cost input relates the portion of the expense to the total expense to establish an appropriate method to allocate.

Texas RE shall provide its budget for such non-statutory activities to NERC at the same time that Texas RE submits its annual budget request to NERC pursuant to Section 1. Texas RE's budget for non-statutory activities that is provided to NERC shall contain a detailed list of Texas RE 's non-statutory activities Texas RE agrees that no costs of non-statutory activities are to be included in the calculation of Texas RE dues, fees, and other charges for its statutory activities pursuant to this Agreement.

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Attachment 1 to Exhibit E

Confirmation of Electric Reliability Council of Texas, Inc.

Electric Reliability Council of Texas, Inc. (ERCOT), the Independent System Operator (ISO) for the ERCOT region, has agreed to act as the billing agent on behalf of NERC to bill and collect assessments for the costs of activities under Section 215(c) of the Federal Power Act from load-serving entities, Qualified Scheduling Entities (QSEs), or such other entities as agreed by North American Electric Reliability Corporation (NERC), Texas ~~Regional Reliability~~ Entity, Inc. (Texas RE), and ERCOT. ERCOT agrees that ERCOT shall: (i) issue all invoices to load-serving entities, QSEs, or other agreed entities in a prompt and timely manner after receipt from NERC of the information needed to issue the invoice; (ii) exercise commercially reasonable efforts to collect invoices that are not paid as of the due date(s); and (iii) transfer all funds collected to NERC on a quarterly basis, in a timely manner.

On a quarterly basis, NERC will send ERCOT an invoice covering the NERC and Texas RE budgets approved for collection for the ERCOT region. ~~Within~~ No later than the later of (i) the first day of the calendar quarter and (ii) ten (10) business days after receiving this invoice, ERCOT will electronically ~~transfer~~ transmit to NERC, in immediately available funds, the amount reflected in the NERC invoice, unless ERCOT has been unable to collect and does not reasonably believe it will be able to collect this amount from load-serving entities, QSEs, or other agreed entities after exercise of commercially reasonable efforts. On the same day as ERCOT makes its electronic transfer of funds to NERC, ERCOT will send an e-mail to the Chief Financial Officer of NERC, copying the Texas RE Chief ~~Compliance Executive~~ Officer and the Texas RE financial analyst, either (i) confirming that the full invoiced amount has been electronically transmitted to NERC; or, (ii) stating that ERCOT is unable to collect the full amount of the NERC invoice and reasonably believes that it will not be able to collect the full amount of the NERC invoice from load-serving entities, QSEs, or other agreed entities after exercising commercially reasonable efforts and confirming the amount that has been transmitted to NERC. In the event ERCOT is unable to transfer to NERC the full invoice amount, ERCOT shall also send to NERC and Texas RE a listing of any load-serving entity, QSE, or other agreed entity that has not paid its load ratio share and an itemization of the collections that ERCOT received by entity and amount. ERCOT shall maintain a detailed list of the entities from which payments are collected and the amount collected from each entity.

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Electric Reliability Council of Texas, Inc.

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

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## Exhibit E — Funding

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### 1. Scope of activities funded through the ERO funding mechanism

The Texas ~~Regional Entity Division of Electric~~ Reliability Council of Texas Entity, Inc. ("Texas RE") shall include in its annual budget submission to the North American Electric Reliability Corporation ("NERC") amounts for costs it will incur in support of delegated activities and activities that are in furtherance of NERC's responsibilities as the ERO under the Act, as specified in the NERC Rules . These activities shall include:

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- Investigation of market participants' compliance with the ERCOT Protocols and Operating Guides which contain the Regional criteria for planning and operating reliable interconnected bulk electrical systems in the ERCOT region, and assistance or cooperation in enforcement of violations ("ERCOT Compliance Activities"), so long as the ERCOT Compliance Activities do not conflict with the statutory activities, including: (i)

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- B. Texas RE utilizes and must maintain a time recording and expense management system under which -employee time and expenses incurred in the conduct of non-statutory activities will be tracked to ensure that they are not funded by NERC remittances intended for the funding of statutory activities.
- C. Texas RE has adopted a detailed system of Account Codes, Department Codes and Activity Codes which are used in recording expenses. The Activity Codes are specific to statutory activities and non-statutory activities. The Texas RE Activity Codes are modeled on the NERC Functional Categories. Texas RE -shall use Department Codes that are unique to Texas RE- to record all costs and expenses incurred by Texas RE for statutory activities and non-statutory activities.
- D. Texas RE shall use Activity Codes to appropriately track its costs for statutory activities separately from its costs for non-statutory activities.
- E. Where employee time or an expense affects multiple activities, Texas RE will use an accurate basis of allocation of the time or expense between the activities being performed based on specific metrics, such as time tracking, data observations or total cost input. Total cost input relates the portion of the expense to the total expense to establish an appropriate method to allocate.

Texas RE shall provide its budget for such non-statutory activities to NERC at the same time that Texas RE submits its annual budget request to NERC pursuant to Section 1. Texas RE's budget for non-statutory activities that is provided to NERC shall contain a detailed list of Texas RE 's non-statutory activities Texas RE agrees that no costs of non-statutory activities are to be included in the calculation of Texas RE dues, fees, and other charges for its statutory activities pursuant to this Agreement.

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On a quarterly basis, NERC will send ERCOT an invoice covering the NERC and Texas RE budgets approved for collection for the ERCOT region. ~~Within~~ No later than the later of (i) the first day of the calendar quarter and (ii) ten (10) business days after receiving this invoice, ERCOT will electronically ~~transfer~~ transmit to NERC, in immediately available funds, the amount reflected in the NERC invoice, unless ERCOT has been unable to collect and does not reasonably believe it will be able to collect this amount from load-serving entities, QSEs, or other agreed entities after exercise of commercially reasonable efforts. On the same day as ERCOT makes its electronic transfer of funds to NERC, ERCOT will send an e-mail to the Chief Financial Officer of NERC, copying the Texas RE Chief ~~Compliance Executive~~ Officer ~~and the Texas RE financial analyst,~~ either (i) confirming that the full invoiced amount has been electronically transmitted to NERC; or, (ii) stating that ERCOT is unable to collect the full amount of the NERC invoice and reasonably believes that it will not be able to collect the full amount of the NERC invoice from load-serving entities, QSEs, or other agreed entities after exercising commercially reasonable efforts and confirming the amount that has been transmitted to NERC. In the event ERCOT is unable to transfer to NERC the full invoice amount, ERCOT shall also send to NERC and Texas RE a listing of any load-serving entity, QSE, or other agreed entity that has not paid its load ratio share and an itemization of the collections that ERCOT received by entity and amount. ERCOT shall maintain a detailed list of the entities from which payments are collected and the amount collected from each entity.

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Electric Reliability Council of Texas, Inc.

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

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**ATTACHMENT 3**

**AGREEMENT BETWEEN NERC AND**

**TEXAS REGIONAL ENTITY, A DIVISION OF**

**ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.**

**TERMINATING THE AMENDED AND RESTATED DELEGATION AGREEMENT**

**BETWEEN NERC AND TEXAS REGIONAL ENTITY,**

**A DIVISION OF ELECTRIC RELIABILITY COUNCIL OF TEXAS , INC.**

**AGREEMENT BETWEEN  
THE NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION  
AND TEXAS REGIONAL ENTITY, A DIVISION OF  
ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.  
TO TERMINATE DELEGATION AGREEMENT**

This Agreement (the "Agreement") is entered into as of this \_\_\_ day of \_\_\_\_\_, 2010 (the "Effective Date"), between the North American Electric Reliability Corporation, a New Jersey non-profit corporation ("NERC") and Texas Regional Entity, a Division of Electric Reliability Council of Texas, Inc. ("Texas Regional Entity"; the Electric Reliability Council of Texas, Inc. is hereinafter referred to as "ERCOT").

**RECITALS**

A. NERC is authorized by Section 215 of the Federal Power Act, 18 C.F.R. §39.8, and Section 1200 of the NERC Rules of Procedure, to enter into, subject to approval of the Federal Energy Regulatory Commission ("Commission"), agreements to delegate NERC's authority as the Electric Reliability Organization to regional entities for the purpose of proposing reliability standards to NERC and enforcing compliance with reliability standards.

B. NERC has entered into an Amended and Restated Delegation Agreement with Texas Regional Entity (the "Texas Regional Entity Delegation Agreement") by which NERC has delegated to Texas Regional Entity authority as the regional entity for the region described in Exhibit A to the Texas Regional Entity Delegation Agreement (the "ERCOT Region"); the Texas Regional Entity Delegation Agreement, as amended from time to time, has been approved by the Commission and is presently in effect.

C. The initial term of the Texas Regional Entity Delegation Agreement, by its terms as approved by the Commission, expires May 2, 2011.

D. With the consent and approval of Texas Regional Entity, a new corporation, Texas Reliability Entity, Inc. ("Texas Reliability Entity"), has been formed for the purpose of accepting a delegation of authority from NERC as the regional entity for the ERCOT Region, as successor to Texas Regional Entity, subject to approval of the Commission.

E. Texas Regional Entity has made known to NERC its willingness to terminate the Texas Regional Entity Delegation Agreement, effective on the date that the delegation of authority to Texas Reliability Entity as the regional entity for the ERCOT Region becomes effective.

F. NERC and Texas Reliability Entity have negotiated an agreement (the "Texas Reliability Entity Delegation Agreement") by which NERC has delegated to Texas Reliability Entity authority as the regional entity for the ERCOT Region; the Texas Reliability Entity Delegation Agreement has been approved by the Boards of NERC and of Texas Reliability Entity and by the Commission.

G. The Boards of NERC and of Texas Regional Entity, and the Commission, have approved the termination of the Texas Regional Entity Delegation Agreement, with such termination to be effective on the effective date of the Texas Reliability Entity Delegation Agreement.

H. ERCOT and Texas Reliability Entity have entered into a certain Assignment and Assumption Agreement, effective as of the Effective Date of this Agreement (the "Assignment and Assumption Agreement"), pursuant to which, among other things, ERCOT will transfer certain tangible and intangible assets to Texas Reliability Entity and Texas Reliability Entity will assume certain liabilities from ERCOT, relating to the activities of Texas Regional Entity.

THEREFORE, for an in consideration of the premises and mutual representations and agreements contained herein, NERC and Texas Regional Entity hereby agree as follows:

**AGREEMENT**

1. The Texas Regional Entity Delegation Agreement is terminated as of the Effective Date of this Agreement, subject to survival of certain provisions of the Texas Regional Entity Delegation Agreement as set forth in Section 11(d) thereof.

2. Following the Effective Date, Texas Regional Entity will cooperate with and assist NERC and Texas Reliability Entity in preparing, for filing with the Commission within ninety (90) days following the Effective Date, a reconciliation of the approved 2010 budget and funding of Texas Regional Entity to the actual revenues and expenditures of Texas Regional Entity from January 1, 2010 to the Effective Date, which reconciliation shall demonstrate that all unspent revenues, and all cash reserves and other fund balances, of Texas Regional Entity have been appropriately transferred to Texas Reliability Entity.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the Effective Date.

NORTH AMERICAN ELECTRIC  
RELIABILITY CORPORATION

TEXAS REGIONAL ENTITY, A DIVISION  
OF ELECTRIC RELIABILITY COUNCIL  
OF TEXAS, INC.

By \_\_\_\_\_  
[Signature]

By \_\_\_\_\_  
[Signature]

\_\_\_\_\_  
[Print name]

\_\_\_\_\_  
[Print name]

\_\_\_\_\_  
[Print title]

\_\_\_\_\_  
[Print title]

**ATTACHMENT 4**

**PROPOSED AMENDED 2010 BUSINESS PLAN AND BUDGET**

**OF TEXAS RELIABILITY ENTITY, INC.**

**CLEAN VERSION**

**Amended 2010 Business Plan and Budget**

**Texas Reliability Entity, Inc.,  
Successor to Texas Regional Entity,  
A Division of Electric Reliability Council of Texas, Inc.**

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

**Submitted:**

**January 8, 2010**

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## Introduction

<b>Total Texas RE Resources</b>				
(in whole dollars)				
	2010 Budget	U.S.	Canada	Mexico
Statutory FTEs	39.50			
Non-statutory FTEs	6.50			
Total FTEs	46.00			
Statutory Expenses	\$9,216,393	\$9,216,393		
Non-statutory Expenses	\$1,149,132	\$1,149,132		
Total Expenses	\$10,365,525	\$10,365,525		
Statutory Funding	\$9,353,340	\$9,353,340		
Non-statutory(Member) Funding	\$1,183,879	\$1,183,879		
Total Funding	\$10,537,219	\$10,537,219		
NEL	310,856,852	310,856,852		
NEL %	100%	100%		

### Organizational Overview

Texas Reliability Entity, Inc. (Texas RE) is a new Texas non-profit corporation which was created to become the successor to the Texas Regional Entity division of Electric Reliability Council of Texas, Inc. (ERCOT ISO), which has an approved Regional Delegation Agreement with the North American Reliability Corporation (NERC) for the ERCOT region. The purpose of Texas RE is to become the regional entity for the 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).

The ERCOT region is the geographic area located within the State of Texas that operates under the jurisdiction of the Public Utility Commission of Texas (PUCT) and is not synchronously interconnected with any electric utilities operating outside of Texas. The ERCOT region includes approximately 200,000 square miles and 85% of Texas load.

In May 2007, the Texas Regional Entity division of ERCOT ISO (Original Texas RE) executed its Delegation Agreement with NERC, the Electric Reliability Organization (ERO) certified by the Federal Energy Regulatory Commission (FERC), pursuant to Section 215(c) of the Federal Power Act (FPA). In response to subsequent orders by the Commission, Original Texas RE and NERC signed Amended and Restated Delegation Agreements on March 28, 2008 and January 3, 2009.

In the May 2007 Delegation Agreement and the March 28, 2008 and January 3, 2009 Amended and Restated Delegation Agreements (collectively "the Original Delegation Agreement"), NERC delegated to Original Texas RE certain responsibilities and authorities of a regional entity as

defined in the FPA, regulations adopted by the Commission (including but not limited to Order Nos. 672 and 672-A in Docket No. RM05-30-000), and other directives of the Commission, including the authority to propose, develop, monitor, assess, and enforce reliability standards and regional standards and variances within the ERCOT region, in accordance with the NERC Rules of Procedure (ROP). These activities under the Original Delegation Agreement and the proposed new Delegation Agreement for Texas RE are referred to herein as Statutory activities.

Texas RE seeks, concurrently with the submission of this 2010 Amended Business Plan and Budget, to be approved as a regional entity and take over the performance of the Statutory activities under a new or amended Delegation Agreement with NERC (“Delegation Agreement”). Texas RE intends to begin its performance of the delegated activities as a successor to Original Texas RE approximately sixty (60) days after FERC approves the Delegation Agreement and this proposed 2010 Amended Business Plan and Budget. The date upon which Texas RE begins to perform under the Delegation Agreement (and Original Texas RE ceases performance of regional entity delegated functions under the Original Delegation Agreement) is referred to herein as the “Implementation.” In preparing this 2010 Amended Business Plan and Budget, the Implementation is projected to occur on July 1, 2010; however, the amount of start-up and incremental operating costs that Texas RE expects to incur in 2010 would not be significantly affected were the Implementation to be one to two months earlier or later than this date.

Beginning with the Implementation, in addition to performing the Statutory activities, Texas RE will also monitor, investigate, audit, and report on compliance with the ERCOT region reliability-based Protocols and Operating Guides (Protocols) for the PUCT, as a transition of the activities performed by Original Texas RE, through at least December 31, 2010. These Protocol compliance activities are referred to herein as Non-Statutory activities. Texas RE will coordinate with PUCT staff regarding enforcement of potential Protocol violations, and the PUCT will prosecute any Protocol violations that result in enforcement actions. Due process is provided to any entity that is reported to have violated a Protocol, pursuant to state law, and the PUCT makes all final decisions regarding Protocol violations.

### **Overview of the Texas RE proposed 2010 Amended Business Plan and Budget**

Texas RE’s proposed 2010 Amended and Restated Business Plan and Budget (referred to herein as “Amended Budget” or “Proposed Budget”) includes (A) the expenditures required by Original Texas RE under its previously submitted and approved 2010 Business Plan and Budget<sup>1</sup> (referred to herein as “Approved Budget”) until Implementation, which is estimated herein to be July 1, 2010, and (B) the expenditures required by Texas RE in 2010 for its start up costs and for operating expenses it incurs in 2010 as a regional entity, beginning at Implementation. In addition, the 2010 Amended Budget recognizes, through appropriate adjustments to the Working Capital Reserve Analysis, certain major cost impacts that were not recognized in the 2010 Approved Budget submitted by Original Texas RE to NERC in July and August 2009 and by NERC to the Commission in August 2009, but have manifested subsequent to August 2009.

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<sup>1</sup> See *Request of the North American Electric Reliability Corporation for Acceptance of its 2010 Business Plan and Budget and the 2010 Business Plans and Budgets of Regional Entities and for Approval of Proposed Assessments to Fund Budgets*, filed August 24, 2009 in Docket RR09-9-000; and *Order Conditionally Accepting 2010 Business Plan And Budget of the North American Electric Reliability Corporation and Ordering Compliance Filings*, 129 FERC ¶ 61,040 (October 15, 2009)



In general, the organization of the 2010 Amended Budget follows the organization of the 2010 Approved Budget except where revisions are needed to describe the impacts of the above-described changes. In addition, in several instances in which an assumption is mentioned that is now known to be incorrect (for reasons unrelated to the formation of Texas RE as a separate entity), the fact that the assumption is no longer valid is noted. (A separate, redlined version of the 2010 Amended Budget against the 2010 Approved Budget is also being provided.) Further, in the Statements of Activities and the summary tables for each statutory program, the values for the 2010 Approved Budget, the incremental costs due to the separation of Texas RE, and the resulting 2010 Amended Budget, are shown.

Original Texas RE will continue to perform under the Original Delegation Agreement and its approved 2010 Business Plan and Budget until Implementation, when Texas RE will begin to perform the Statutory and Non-statutory activities under a new Delegation Agreement. Original Texas RE will hire some of the additional employees required by new Texas RE prior to Implementation, to help prepare for the Implementation and for the prior transition of many of the administrative services that were performed for Original Texas RE by ERCOT ISO under the Memorandum of Understanding which was attached to the Original Texas RE 2010 Business Plan & Budget filing (MOU).

Upon Implementation, any remaining Original Texas RE funds, from cash reserves, penalties, and any Statutory revenues which are not spent by Original Texas RE performing Statutory Activities, will be distributed to Texas RE. Texas RE and NERC will, within ninety (90) days after Implementation, prepare and file a reconciliation of the approved 2010 budget of Original Texas RE to the actual expenditures and revenues, from January 1, 2010 to Implementation, to demonstrate that all unspent collections and reserves were appropriately transferred to Texas RE.

### **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.

## Introduction

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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:

- The Texas RE Chief Executive Officer
- The 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
- Four (4) Independent Directors
- Two (2) Member Directors (the Chair and Vice-Chair of the Member Representatives Committee).

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 Compliance Monitoring and Enforcement Program (CMEP).
- Perform other delegation-related services on behalf of NERC, in furtherance of NERC's responsibilities as the ERO under the FPA, including:

- Assessment and performance analysis of the present and future reliability, adequacy, and security of the BPS.
- Promote effective training and education of reliability personnel and assist in the certification of operating personnel.
- Promote situational awareness and the security and protection of critical infrastructure.

## 2010 Key Assumptions

The key assumptions for Texas RE's 2010 Amended Budget include the following:

- Original Texas RE will remain functionally separate from ERCOT ISO and will continue to receive at least some administrative services (including human resources and possibly information technology services) from ERCOT ISO through a memorandum of understanding (which was amended as of February 16, 2009 and was attached to the Original Texas RE 2010 Business Plan & Budget filing (MOU)) until the Implementation.
- Texas RE will be legally separate from ERCOT ISO, will not obtain administrative or other services from ERCOT ISO, and as a result will be required to pay more for some of the administrative services and employee benefits than Original Texas RE paid through the MOU, including:
  - Texas RE will hire six (6) additional corporate services employees not required in the Original Texas RE 2010 Business Plan and Budget
  - Texas RE will outsource certain information technology services at cost higher than the amount paid by Original Texas RE to ERCOT ISO under the MOU
  - Texas RE will be required to pay more for employee benefits than the amount paid by Original Texas RE for similar services under the MOU
- Texas RE will use competitive processes, to the extent feasible, to procure the administrative services, goods, and employee benefits formerly provided to Original Texas RE under the MOU.
- Texas RE will be required to expend substantial start up costs for such things as furniture, software, information technology equipment (computers, telephone system, and servers), search firm expenses for independent directors, and contract assignments.
- Texas RE will maintain a 75-day cash reserve in 2010.
- The Delegation Agreement requirements and NERC expectations will be consistent with those under the current Delegation Agreement between NERC and Original Texas RE (without taking into account, for purposes of the 2010 Amended Budget, changes that may result from the currently ongoing renegotiation of the Delegation Agreements between NERC and the Regional Entities).
- Texas RE will use the surplus funds transferred from the Original Texas RE, and any penalty funds received by Original Texas RE or Texas RE prior to July 1, 2009, to offset 2010 funding requirements. All unanticipated expenses incurred in 2009 by Original Texas RE are offset by 2009 underspending in other areas; so, the surplus funds in the 2010 Approved Budget have not changed.
- The number of registered entities and the current audit frequency are expected to remain fairly constant, except as specifically described herein.

- The number of contested enforcement and registration cases will remain fairly low in 2010 but will be slightly higher than originally estimated by Original Texas RE – one to two large or two to three small-to-mid-sized disputes per year.
- ERCOT ISO will continue to take primary responsibility for the research and preparation of the seasonal and long-term reliability assessments, with Texas RE responsible for coordinating, reviewing, and providing comments on such assessments, and ensuring timely submission to NERC. This is a changed statement of this assumption from the approved Original Texas RE Approved 2010 Budget.
- NERC, Texas RE, and the other regional entities will continue to invest in technology improvements and process automation to improve efficiency and increase national consistency.
- NERC will lead the audits, other compliance monitoring processes, and enforcement of ERCOT ISO during the time Original Texas RE is the regional entity under the Delegation Agreement (until Implementation). This is a changed assumption from the approved Original Texas RE 2010 Approved Budget.
- NERC will charge Original Texas RE fees to cover NERC's costs for its leadership/performance of compliance monitoring and enforcement activities of ERCOT, but Original Texas RE and Texas RE will fund any such fees out of reserves. (NERC's costs will include its personnel expenses, travel expenses, an allocation of overhead based upon the time spent performing the function, and any other costs incurred specifically related to performance of compliance monitoring and enforcement activities in the Region. The impact of such costs incurred in 2009 was offset by positive variances in other areas and did not require an adjustment to the Working Capital Reserve.)
- Texas RE has not budgeted to conduct CIP audits of nuclear facilities.
- Texas RE estimated the budget immediately required for the evaluation of Technical Feasibility Exception (TFE) requests based upon the information available at this time.

## 2010 Goals and Key Deliverables

Texas RE's Goals and Key Deliverables for 2010 are as follows:

1. Improve reliability through rigorous monitoring and enforcement of compliance with mandatory standards, in accordance with the Delegation Agreement and the CMEP
  - a. Maintain registrations for responsible entities.
  - b. Monitor compliance of registered entities in the ERCOT region with mandatory standards, while adopting risk-based methodologies to optimize reliability benefits and improving quality and timeliness.
  - c. Ensure timely and thorough mitigation of all violations of mandatory reliability standards.
  - d. Enforce registered entities' compliance with the mandatory standards, while improving timeliness.
  - e. Promote a strong culture of compliance excellence, reliability improvement, and risk-based methods among registered entities in the ERCOT region.

2. Effectively communicate with NERC, other regional entities, regulators, and industry stakeholders as follows:
  - a. Continue to build and improve cooperative relationships with other registered entities, industry stakeholders, and regulators through regular, consistent messaging regarding all of Texas RE's program areas.
  - b. Deliver a consistent message through the Texas RE website and a variety of electronic media (including the bi-monthly newsletter) as a timely and efficient means of providing important information to the industry and the public.
3. Maintain effective financial controls and conduct Texas RE operations within the approved budget.
4. Effectively manage the Texas RE Standards Development Process
  - a. Participate in and encourage stakeholder participation in the development of national standards, in support of the NERC three-year plan
  - b. Propose and facilitate development of regional standards or variances that are needed to comply with NERC's three-year plan, FERC directives, and any ERCOT region-wide physical differences.
5. Continue to increase situational awareness and event analysis capabilities, to improve timeliness of root cause analyses and lessons learned and strengthen overall reliability.
6. Work with NERC and the other regional entities to develop appropriate procedures for auditing and monitoring cyber and physical security of critical infrastructure.
7. Efficiently adopt appropriate technology to increase efficiency and productivity.
8. Establish key performance indicators and benchmarks for Texas RE operations.

## **Overview of Cost Impacts – Operating Expenses – of the 2010 Amended Business Plan and Budget**

In the proposed 2010 Amended Budget, total direct Statutory expenses are increasing by \$1,921K (28.5%) in recurring direct operating expenses less reductions in payments to ERCOT under the MOU ("MOU reductions") of \$787K, for a net increase of \$1,134K (16.8%) from the 2010 Approved Budget. This increase reflects the additional expenses required due to the legal separation of Texas RE and the elimination of the lower cost administrative services by ERCOT. This increase does not include the required one-time start-up costs to support the formation of Texas RE as a structurally separate entity from ERCOT ISO (described below). The total recurring Statutory increase is primarily being driven by the following items:

1. Increased personnel expenses resulting from adding six (6) additional staff (5.50 FTEs Statutory, 0.50 FTEs Non-statutory). The total increase for salaries is approximately \$490K. Additionally, the expected increase in benefits expense for those employees is \$156K. This results in a total Statutory personnel expense increase of \$646K due to the new separate corporate entity and elimination of administrative services from ERCOT ISO.
2. \$288K increase in the Contracts & Consultants category for recurring board-related expenses and increased administrative expenses incurred under the MOU for new employees prior to and in preparation for Implementation.

3. \$230K increase in Texas RE Office Rent expenses related to meeting space needs, increase in facility and maintenance expenses (for services previously provided under the MOU), and estimated expenses for a potential 2010 office move for Texas RE (since its lease expires in December 2010).
4. \$4K increase in Office Cost expenses due to additional office supplies and printing for new employees, membership, and items related to the formation of the new corporation.
5. \$597K for increased Professional Services expenses:
  - a. \$71K for increased employee benefit administration for employees (since these benefit administration services will no longer be provided under the MOU and will cost more from a third party vendor, based upon initial verbal quotes from potential vendors).
  - b. \$51K for additional recruitment expenses.
  - c. \$181K for the estimated increased technology expenditures (based upon preliminary discussions with vendors at the beginning of our competitive process), due to the increased cost of information technology (IT) support services from third-party vendors that will replace the services provided to Original Texas RE by ERCOT under the MOU.
  - d. \$64K for the increased cost accounting services from third-party vendors (based upon initial verbal quotes from potential vendors) instead of under the MOU.
  - e. \$43K for the cost of outsourced internal audit function (formerly included in the MOU).
  - f. \$83K for the estimated increased cost for general liability, property and casualty, Directors & Officers, and Errors & Omissions insurance coverage when it is separated from ERCOT's insurance.
  - g. \$15K for an increase in the cost of security services (based upon discussions with vendors), which were previously obtained under the MOU.
  - h. \$90K for increased outside legal expenses, due to the expectation of a greater number of, and scope of, enforcement and registration appeals during 2010 than was assumed in the 2010 Approved Budget. These increased legal expenses are not due to the formation of the new entity or the elimination of the MOU.
6. \$9K increase in the miscellaneous expense category due to the treasury fees to be incurred for start-up and on-going cash management services (formerly provided under the MOU).
7. \$147K for increased depreciation expense.
8. The above-listed costs are offset by reduced spending on costs that were estimated to be incurred under the MOU of \$787K. The detailed breakout of the \$787K in reductions is: \$560K in MOU reductions related to Consultants & Contracts, \$193K in MOU reductions related to office rent, and \$34K in reductions related to Professional Services.

## Overview of Cost Impacts – Texas RE Start-Up Costs

In the proposed 2010 Amended Budget, total direct Statutory start-up costs are budgeted at \$1,162K, comprised of \$217K of operating expenses and \$1,092K of capital additions, offset by increased depreciation expense of \$147K. These costs are one-time costs that will not reoccur in future years. The total increase is primarily being driven by the following items that Texas RE must procure from independent third party vendors to replace the goods and services currently provided to Original Texas RE under its MOU with ERCOT ISO:

1. Texas RE must procure IT assets and establish an independent IT environment that operates without the assistance of ERCOT ISO. The expected capital costs are budgeted at \$634K.
2. Texas RE will procure an accounting system to process all of the accounting data; this is budgeted at \$41K.
3. Texas RE will also procure office furniture, workstations for employees, as well as conference room furniture, etc.; these are capital additions and are expected to total \$317K.
4. Texas RE is also budgeting for the recruitment fees anticipated with securing four (4) independent directors. This search fee is expected to be \$200K.
5. Texas RE must expend approximately \$17K for the set-up and implementation of the HRIS, Payroll, and Expense Reporting systems.
6. \$100K for a Texas RE Compliance and Enforcement Data Management System (a database tool designed to allow employees to efficiently and flexibly retrieve, view, and analyze registered entity compliance and enforcement information while maintaining data integrity and completeness and reducing the amount of employee time spent manually managing data).
7. Finally, the above costs are offset by the increased depreciation expense of \$147K.

## **Detailed Business Plans and Budgets by Program**

Details of the planning, operation, review, and adjustment for each program area are included in Section A. The corresponding budget details are shown in Section B.



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## Section A — 2010 Business Plan

### Reliability Standards Program

<b>Reliability Standards Program Resources</b>			
(in whole dollars)			
	2010 Approved Budget	2010 Amended Budget	Increase (Decrease)
Total FTEs	2.06	2.06	0.00
Total Direct Expenses	\$273,959	\$273,959	\$0
Total Indirect Expenses <sup>2</sup>	\$136,410	\$228,439	\$92,029
Total Expenses	\$410,369	\$502,398	\$92,029

Texas RE Standards staff facilitates the development of regional standards and variances, in accordance with the Texas RE Standards Development Process, which was approved as Exhibit C to the Delegation Agreement. Texas RE standards staff coordinates and publicly posts information regarding the activities of the Reliability Standards Committee (RSC) and all standards drafting teams (SDTs).

The Texas RE Standards Development Process is open to all organizations that are materially affected by the ERCOT region BPS, with no undue financial barriers. Any such entity has the right to participate by expressing an opinion, having its opinion considered, and having the right to appeal. Notice of all meetings of the Texas RE RSC and all drafting teams are provided on the Texas RE website and are open to the public.

The Texas RE Standards Development Process provides for a balance of interests, containing six Sectors and a requirement of a vote of at least two-thirds of the sectors for approval of any regional standard. No two Sectors can approve, and no single Sector can defeat any matter. In addition, each of the six Sectors with at least two members has two representatives on the RSC. Currently, 47 entities have joined the RBB, representing about 25% of all Texas RE members.

Texas RE's Standards Development Process provides for fair and due process by providing sufficient public notice of the intent to develop a regional standard. In addition, all proposed standards are posted on the Texas RE Reliability Standards Tracking site for public comments.

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<sup>2</sup> Indirect funding is calculated by allocating all administrative services funding to the operational program areas on a proportional FTE basis.

The site allows all interested parties to submit comments during the commenting period. This process also provides an appeals process.

The RSC meets once a month. The SDTs meet as necessary and include WebEx participation. In addition to facilitating all meetings, Texas RE Standards employees are directly involved in the non-technical aspects of the drafting of the standards. Texas RE Compliance employees also provide technical support, as requested. To promote wider awareness of and participation in the reliability standards process throughout the ERCOT region, Texas RE launched the Reliability Standards Tracking site in 2008. The tool allows all registered parties to efficiently submit comments on SARs and draft standards during commenting periods and allows members of the Registered Ballot Body (RBB) to vote online.

Texas RE staff supports and participates in the NERC Standards Committee and Regional Reliability Standards Working Group and has contributed to the 2009-2011 NERC Work Plan. The Texas RE Manager of Standards was nominated and accepted into the NERC Communications and Planning Subcommittee of the NERC Standards Committee. In addition, the Texas RE staff review draft reliability standards from other regions, and staff from other regional entities review draft Texas RE regional standards.

Texas RE informs stakeholders of the impact and requirements of emerging NERC standards through training at the Texas RE workshops. In general, Texas RE works to ensure that stakeholders have the most current and accurate information on reliability standards. Procedures, forms, meetings, minutes, notes, agendas, drafts, etc., for all regional activities associated with standards are posted in a timely fashion on the Texas RE website. Market notices on major topics and upcoming meetings are sent regularly to Texas RE email lists. Articles on reliability standards topics are included in the bi-monthly Texas RE newsletter.

### **2010 Key Assumptions**

- Standards workflow remains constant, with no more than four (4) new SARs being developed during 2010.
- Standards program staffing is complete with two full time equivalent employees (FTEs) to maintain the continuation of existing SARs and development of potential new ones.
- Travel will increase in 2010 to meet goals of increasing participation in NERC and other regional committees and subcommittees.

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

The goals of the Reliability Standards Program for 2010 are as follows:

1. Meet all FERC and NERC directives with regard to regional standards development and procedures and maintain effective relationships and communications with the standards staff at NERC and the other regional entities.
2. Develop regional standards program communications that educate and inform stakeholders and support the Texas RE Standards Development program objectives.

3. Work closely with NERC and registered entities within the Texas RE footprint to develop regional standards that go beyond, add detail to, or implement NERC Reliability Standards; obtain a regional variance; or otherwise address issues that are not addressed in NERC Reliability Standards.
4. Ensure consistency and quality of regional standards without causing undue restrictions or adverse impacts on competitive electricity markets.
5. Ensure Texas RE Reliability Standards development process is aligned to meet agreed-upon expectations.
6. Streamline and improve the Texas RE's Standards Development Process and associated tools.
7. Participate and be actively involved in various NERC reliability standards programs and related functions.
8. Continue to educate and inform the market participants to ensure adequate representation on the Registered Ballot Body.

To implement these goals Texas RE Standards staff is leading the RSC in developing a scope of work for the RSC to include more comprehensive review and comment to the existing and proposed NERC standards under development for tracking of possible regional variances that may be necessary with the associated continent-wide efforts. Texas RE Standards staff presented the RSC with the 39 standards development projects in the current NERC workplan and asked the RSC to rank them in importance. Ten projects emerged as most important to the ERCOT region. The RSC plans to have subject matter experts (SMEs) make one presentation each month on the 10 projects for evaluation as to any potential regional standard that may be necessary. Texas RE also supports revising the NERC Fill-in-the-Blank standards, and will help develop (as necessary) any regional standards that are subsequently required.

Texas RE Standards staff is considering having a regional standards workshop (a longer and more detailed presentation than the normal standards presentation made during the Compliance workshop), to allow ERCOT region stakeholders to learn about standards in general and the process for developing new regional and national standards. If this workshop is warranted, it would occur in the latter half of 2010. Otherwise, Texas RE Standards staff will continue to include a standards section in the Compliance Workshop.

Previously, stakeholders submitted comments indicating that the NERC Fill-in-the-Blank standards have caused confusion. Texas RE supports the concept of revising the standards to remove the Fill-in-the-Blank components. Texas RE will develop (as necessary) any regional standards that are subsequently required.

A regional-wide announcement was sent out in December 2008 to update and solicit more RBB registrations, to ensure wider participation by all sectors. This announcement was part of the ballot pool solicitation and formation efforts for SAR-001. This resulted in the 47 RBB members as of February 28, 2009.

Texas RE Standards staff will increase its participation in NERC Standards Committee meetings to stay current on all NERC Standards under development for presentation to the ERCOT ISO stakeholders, and Texas RE will continue participating in the NERC Communication and Planning Subcommittee.

**Funding Requirements — Explanation of Increase (Decrease) Over 2010 Approved Budget**

The funding requirements reflect an increase of \$150K from the 2010 Approved Budget for Original Texas RE because of the start-up costs and the increased administrative costs of Texas RE.

Section B — 2010 Regional Entity Budget

**Reliability Standards Program**

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

<b>Statement of Activities</b>			
<b>2010 Approved Budget &amp; 2010 Amended Budget</b>			
<b>Reliability Standards</b>			
	2010 Approved Budget	2010 Adjustment to the Approved Budget	2010 Amended Budget
<b>Funding</b>			
<b>ERO Funding</b>			
ERO Assessments	\$ 411,750	\$ 149,650	\$ 561,400
Penalty Sanctions	-		-
<b>Total ERO Funding</b>	<b>\$ 411,750</b>	<b>\$ 149,650</b>	<b>\$ 561,400</b>
Membership Dues	-		-
Testing Fees	-		-
Services & Software	-		-
Workshops	-		-
Interest	-		-
Miscellaneous	-		-
<b>Total Funding</b>	<b>\$ 411,750</b>	<b>\$ 149,650</b>	<b>\$ 561,400</b>
<b>Expenses</b>			
<b>Personnel Expenses</b>			
Salaries	\$ 184,729		\$ 184,729
Payroll Taxes	14,901		14,901
Benefits	20,489		20,489
Retirement Costs	26,697		26,697
<b>Total Personnel Expenses</b>	<b>\$ 246,816</b>	<b>\$ -</b>	<b>\$ 246,816</b>
<b>Meeting Expenses</b>			
Meetings	\$ 400		\$ 400
Travel	6,824		6,824
Conference Calls	-		-
<b>Total Meeting Expenses</b>	<b>\$ 7,224</b>	<b>\$ -</b>	<b>\$ 7,224</b>
<b>Operating Expenses</b>			
Consultants & Contracts	\$ -		\$ -
Office Rent	-		-
Office Costs	480		480
Professional Services	18,824		18,824
Miscellaneous	615		615
Depreciation	-		-
<b>Total Operating Expenses</b>	<b>\$ 19,919</b>	<b>\$ -</b>	<b>\$ 19,919</b>
<b>Total Direct Expenses</b>	<b>\$ 273,959</b>	<b>\$ -</b>	<b>\$ 273,959</b>
<b>Indirect Expenses</b>	<b>\$ 136,410</b>	<b>\$ 92,029</b>	<b>\$ 228,439</b>
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total Expenses</b>	<b>\$ 410,369</b>	<b>\$ 92,029</b>	<b>\$ 502,398</b>
<b>Change in Assets</b>	<b>\$ 1,381</b>	<b>\$ 57,621</b>	<b>\$ 59,002</b>
<b>Fixed Assets</b>			
Depreciation	\$ -	\$ -	\$ -
Computer & Software CapEx	-		-
Furniture & Fixtures CapEx	-		-
Equipment CapEx	-		-
Leasehold Improvements	-		-
<b>(Incr)Dec in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Allocation of Fixed Assets	\$ (1,381)	\$ (57,621)	\$ (59,002)
<b>Change in Fixed Assets</b>	<b>\$ (1,381)</b>	<b>\$ (57,621)</b>	<b>\$ (59,002)</b>
<b>TOTAL CHANGE IN ASSETS</b>	<b>-</b>	<b>\$ -</b>	<b>\$ -</b>

## **Explanations of Variances – Proposed 2010 Amended Budget versus Approved 2010 Budget**

### **Funding Sources**

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

### **Personnel Expenses**

- N/A

### **Meeting Expenses**

- N/A

### **Operating Expenses**

- N/A

### **Indirect Expenses**

- Indirect expenses are increasing by \$92K due to the start-up costs and the increased administrative costs of Texas RE. These increased indirect expenses were allocated to the direct statutory programs on the basis of proportional numbers of FTE employees in each statutory program. The result is a total of \$228K for indirect expenses through 2010.

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

- N/A

### **Fixed Asset Additions**

- Fixed asset additions are increasing due to the allocation of the increased administrative services' fixed assets expenditures which are required for the start-up of Texas RE, in the amount of approximately \$58K, bringing the total fixed asset additions to \$59K for 2010.

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

<b>Compliance Monitoring and Enforcement and Organization Registration and Certification Program Resources</b>			
(in whole dollars)			
	2010 Approved Budget	2010 Amended Budget	Increase(Decrease)
Total FTEs	21.74	21.74	0.00
Total Direct Expenses	\$3,465,857	\$3,465,857	\$0
Total Indirect Expenses	\$1,438,898	\$2,409,652	\$970,754
Total Expenses	\$4,904,755	\$5,875,509	\$970,754

The purpose of Texas RE's Compliance Monitoring and Enforcement Program (CMEP) is to protect the reliability of the ERCOT region's Bulk-Power System (BPS) through its interactions with and oversight of the registered entities in the region. Texas RE is responsible for monitoring, assessing, and enforcing compliance with NERC Reliability Standards and regional standards for all registered entities in the ERCOT region. The CMEP activities make up the majority of the work currently done by Texas RE although Non-statutory work continues to be an important aspect of overall compliance in the ERCOT region.

The CMEP focuses on four primary areas: properly registering organizations responsible for complying with reliability standards (Organization Registration and Certification), monitoring the registered entities for compliance with reliability standards (Compliance Monitoring), determining and reporting to NERC violations of reliability standards by registered entities (Enforcement), and ensuring correction of non-compliance and violations (Mitigation of Violations). Texas RE maintains processes and procedures for data gathering, reporting, investigating, auditing, assessing, penalizing and sanctioning violators, and mitigating non-compliance.

Because the CMEP is still a relatively new program, Texas RE continues to develop policies and procedures to support the evolving requirements that are developed at the national level. Texas RE will continue to review its organizational structure, processes, procedures and document management with the intent to continuously improve the quality and timeliness of its work while also controlling the cost of compliance whenever possible.

In 2010, Texas RE is developing a software tool (Texas RE Compliance and Enforcement Data Management System) to allow Texas RE employees to efficiently and flexibly view, analyze, and retrieve Texas RE registered entity compliance and enforcement information (by registered entity, registered function, date, compliance monitoring process, technical feasibility exception request, settlement agreement, violation, etc.). The tool should increase the efficiency of

compliance and enforcement personnel locating and analyzing relevant compliance and enforcement information as needed for performance of their duties. This tool will ultimately interface with the Texas RE document management system. This is a cost impact not included in the 2010 Approved Budget of Original Texas RE.

#### Organization Registration and Certification Program Description and Functions

Texas RE is responsible for identifying and registering the owners, operators, and users of the BPS as registered entities in the ERCOT region per Section 500 of the NERC ROP. These registered entities are responsible for complying with all applicable reliability standards. Texas RE must maintain an accurate registration list of all entities, their contact personnel and the business relationships, as well as managing the Joint Registered Organization agreement process.

Texas RE has 214 registered entities representing 335 functions as of November 30, 2009. The list of registered entities in the ERCOT region continues to evolve and currently includes:

- 110 Generator Owners (GO)
- 79 Generator Operators (GOP)
- 24 Transmission Planners (TP)
- 29 Transmission Owners (TO)
- 46 Distribution Providers (DP)
- 40 Purchasing Selling Entities (PSE)
- 1 entity – ERCOT ISO – with seven (7) functional registrations: Transmission Operator (TOP), Reliability Coordinator (RC), Balancing Authority (BA), Planning Authority (PA), Resource Planner (RP), Transmission Service Provider (TSP), and Interchange Authority (IA)

Texas RE has a Stakeholder Management Department with responsibility for registration, certification, training, communications, reporting, document management and reliability assessments. This provides organizational focus for stakeholder management and services.

Texas RE will continue to use the compliance portal launched by Original Texas RE in 2008, which allows registered entities to update or modify contact information and to submit self-certification response electronically. However, extracting data from the portal for submission to NERC continues to require manual intervention and quality control to validate entity changes. Texas RE has planned improvements for the portal to address issues such as reporting, and NERC is working toward completing its portal to allow a more efficient submission of this information. The updated Texas RE and NERC portals are intended to reduce some of the administrative burdens on this program.



The implementation of the modified LSE registration criteria in 2008 resulted in significant challenges in the ERCOT region due to the unique market design of the ERCOT region (including competitive markets and a single Balancing Authority). A number of ERCOT region stakeholders have now agreed to a Joint Registration Organization (JRO) solution for the Load Serving Entity (LSE) function in the ERCOT region which should help to avoid gaps and overlaps and reduce the number of required registration appeals. The JRO has an effective date of January 1, 2010. Texas RE anticipates that most of the entities needed for registration as LSEs in the ERCOT region will participate in the LSE JRO, but it believes there might be some registration disputes by entities that do not participate in this JRO. Texas RE will need to register all LSEs that do not participate in the JRO. Texas RE anticipates that the LSE JRO will result in a small increase in newly registered entities and a more significant increase in registered functions for existing entities. This reflects a change in assumptions from the 2010 Approved Business Plan and Budget, but Texas RE is not seeking additional resources for this area at this time.

Registration work is expected to remain at the current level through 2010 due to on-going registered entity changes (changes in business names, mergers, acquisitions, asset sales, and reorganizations) and a possible JRO for the Transmission Operator (TOP) function (which could require TOP certification audits).

Registration disputes have the potential to adversely impact work load in the registration area. The time expended by Original Texas RE on each registration appeal (none of which are currently pending) has been significant. Texas RE anticipates that registration disputes should reduce over time once the NERC functions and registration criteria stabilize, but Texas RE anticipates possible registration disputes in the LSE and TOP areas in 2010. This budget anticipates no additional significant changes in registration criteria in 2010.

The extensive reporting requirements for NERC, FERC, and the Texas RE board continue to remain higher and more challenging than expected. Texas RE anticipates that this could reduce somewhat, but, as a fairly new enterprise that is trying to achieve consistency among eight regional entities and NERC, Texas RE anticipates that it will need to continue to meet extensive reporting obligations through 2010.

#### Compliance Monitoring and Enforcement Program Description and Functions

Through a rigorous program of monitoring, audits, assessments, investigations, mitigation activities, and the imposition of penalties and sanctions for non-compliance with reliability standards, Texas RE strives to maintain a high level of reliability in the ERCOT region BPS. Ensuring the reliable operation of the BPS benefits all owners, operators, and users of the BPS in the ERCOT region.

In 2008, Texas RE divided its compliance staff into a Compliance Audit group and a Compliance Enforcement group in order to provide separation between the audit the other compliance and enforcement processes.

Texas RE uses a total of eight (8) monitoring and investigation processes to collect information to confirm compliance or a violation with NERC Reliability Standards:

1. Compliance Audits,
2. Self-Certifications,

3. Spot Checking,
4. Compliance Violation Investigations (CVI),
5. Self-Reporting,
6. Periodic Data Submittals,
7. Exception Reporting,
8. Complaints.

### **Compliance Audit**

Texas RE audits the reliability standards on a recurring basis using an approved audit plan coordinated with NERC and the other regions. Texas RE also augments the audit schedule based on regional needs. The Compliance Audit schedule follows a three or six-year cycle, depending on the entity's registration, and an audit report is issued for each audit.

In addition, in accordance with the NERC CMEP Implementation Plan, Texas RE requires each registered entity to complete a compliance Self-Certification using electronic forms developed in coordination with NERC and distributed by Texas RE, regardless of whether the registered entity has had a compliance audit in that year. The entity must certify its compliance or non-compliance with each designated measure and submit the Self-Certification form to the Texas RE by the date specified in Texas RE's request. Texas RE may require registered entities to also self-certify their compliance with reliability standards at other times as well. (This paragraph reflects a change in policy adopted subsequent to the submission of the 2010 Approved Budget.)

Texas RE's Compliance Audit group performs Spot Checks of registered entities to 1) confirm compliance certified on Self-Certifications, 2) follow up on Self Reports and Periodic Data Submittals, and 3) follow up on complaints, events, or other indications of non-compliance. Texas RE may perform Spot Checks by telephone, site visit, or a data or document request. Deficiencies found in Self-Certifications and Spot Checks are treated as if they were audit findings of violations.

The current plan for Texas RE is to support the 2010 Critical Infrastructure Protection (CIP) audit with the Compliance Audit staff. CIP experts will be staffed in the CIP budget; however, Texas RE intends to augment the CIP audit team with experienced auditors from the Compliance audit team in 2010. Texas RE has only one (1) registered entity that is required to be Auditably Compliant with CIP 002 – 009 prior to January 1, 2011, but Texas RE plans to perform 2010 validation and testing of CIP methodologies for CIP 002 via a minimum of six (6) CIP Spot Checks of the 41 requirements contained in the reliability standards CIP 002 – 009. (The CIP FTEs are discussed in the Critical Infrastructure Information section.)

Texas RE has a single Table 1 entity, ERCOT ISO, due to its registration as the sole TOP, BA and RC in the ERCOT Region. Texas RE scheduled the spot check in 2009 for this entity covering the thirteen requirements initially applicable to Table 1 entities. Texas RE's 2010 plan therefore does not include additional mandatory spot checks of these thirteen requirements (as is the case in most other Regions). In the latter half of 2010, Texas RE has budgeted for

approximately 10 possible event-driven spot checks of CIP requirements for Table 3 entities that will be in the “Compliant” stage of the CIP implementation plan. The budget also includes a planned ERCOT ISO audit for the remaining 28 CIP-002 through 009 requirements not included in this year’s spot check, after July 1, 2010 when these requirements become “Auditably Compliant” for Table 1 entities under the implementation plan. It also includes a spot check for the single BA’s compliance with BAL-003, which was adopted after the 2010 Approved Budget was submitted.

### **Compliance Enforcement**

Texas RE has implemented a separate Compliance Enforcement group that processes alleged violations originating from audits, spot-checks, self-certifications, complaints, self reports, CIQs and CVIs. The Compliance Enforcement program activities include reviewing all potential alleged violations from any of the eight (8) defined processes, preparing and submitting notices of alleged violations, preparing Notices of Confirmed Violations, assisting NERC with Notices of Penalties, and managing settlement negotiations and hearings associated with contested violations. This group also reviews all mitigation plans and must confirm completion of all mitigation plans not verified during audit, using Spot Checks, when necessary.

Once a potential alleged violation is identified from any compliance monitoring process, the Compliance Enforcement group may begin a Compliance Inquiry (CIQ), Compliance Violation Investigation (CVI), or perform a Spot Check to gather additional information to assist with the final determination of a potential violation. A CIQ is initiated as an informal, non-public review of facts, circumstances, and information that is conducted to determine if a more formal CMEP activity (such as a Spot Check or CVI) should be initiated. The CVI process is a detailed and lengthy process used for the more serious or complicated potential violations. The Spot Check is a very efficient process to gather information to reach a final determination of a potential violation.

Documentation requirements for all Compliance Enforcement program activities and processes increased during 2009 to support due process and to address all NERC and FERC-required improvements. Texas RE expects the Compliance Enforcement program activities to continue to increase in 2010 due to the level of complexity to reach violation determination and penalty calculation.

Texas RE also anticipates additional work to support enforcement appeals. Since no significant penalties have yet been approved, there have not been any significant appeals in the ERCOT region. Texas RE is staffing to ensure that it will be prepared for 1 large or 2 smaller enforcement appeals.

Texas RE plans to add an additional 1.0 staff (.85 FTEs Statutory, .15 FTEs Non-statutory) in 2010 to accommodate the work load in Compliance Enforcement.

### **2010 Key Assumptions**

#### Organization Registration and Certification

- Additional JRO workload due to LSE and TOP registrations.

- Certification audits for a maximum of 4 new TOPs (registered by JRO) might be performed.
- A maximum of two small to medium or one large registration dispute will occur in 2010. (This is a new assumption not included in the 2010 Approved Business Plan and Budget of Original Texas RE.)
- No additional NERC functions will be added or substantially modified by or during 2010.
- The Texas RE and NERC Portals will be fully functional and supporting electronic reporting of registration information to NERC by late 2010.
- Document management software will be installed in mid-2010 and fully operational by late- 2010.

### Compliance Audit

- Audits will require an average of three (3) full days for the team to conduct the audit, with additional time required for preparation of audit notification, review of submitted responses prior to the audit and completion of the audit reports, similar to the audits performed by Original Texas RE in 2009.
- Spot checks of requirements will be incorporated in the audit team schedule based on system events, self-certification results and complaints. A maximum of 20 entities will have a spot check, (including the ten (10) Spot checks of CIP 002 – 009 standards listed below) conducted in the second half of the year.
- Develop and implement the Texas RE Compliance and Enforcement Data Management System – this is a new assumption not reflected in the 2010 Approved Budget of Original Texas RE.
- NERC will not lead audits or other compliance activities of ERCOT ISO after Implementation (which is a new assumption not reflected in the 2010 Approved Budget).

### Compliance Enforcement

- The number of alleged violations in the region will remain fairly constant in 2010.
- Have one (1) large or two (2) small-to-medium contested enforcement cases.
- Conduct 2 Compliance Violation Investigations.
- Conduct 20 detailed analyses of incidents, system disturbances, and events.
- Analyze and investigate 10 Complaints.
- Develop and implement the Texas RE compliance management data management system.

- Continue to work with NERC and other regional entities to improve consistency in processing violations and applying penalties for Registered Entities with operations in multiple regions.

## **2010 Goals and Key Deliverables**

### Organization Registration and Certification

1. Maintain an accurate registration list of all owners, operators, and users of the BPS by establishing a schedule to verify entity registration and contact information.
2. Provide updated registered entity information to NERC and appropriate government authorities.
3. Participate in development of registration criteria, procedures, policies and databases with NERC and FERC, and implement and communicate changes as necessary.
4. Provide support for all registration appeals.
5. Implement organization certification in accordance with NERC processes, some of which are under development or revision, and conduct required certification audits, if necessary.
6. Maintain processes and procedures for registration and certification activities that are required by the certification standards.
7. Review and improve procedures to improve communications with registered entities
8. Achieve significant improvement in responsiveness and add more focus on regional consistency.
9. Respond to requests and special reports from NERC/FERC and the board.
10. Continue to improve the Portal to facilitate automated communications with registered entities.
11. Help implement and maintain an electronic document management system to more efficiently preserve work papers and evidence.

### Compliance Enforcement

1. Review and process or dismiss all alleged violations in a more timely fashion.
2. Manage all settlements and contested cases to completion, as efficiently as possible.
3. Coordinate with and provide assistance to the Legal Department on settlements, appeals and contested cases.
4. Conduct required Compliance Violation Investigations.
5. Conduct compliance analysis of all significant events and other system disturbances.
6. Analyze and investigate all Complaints.

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7. Achieve reasonable timelines in performing each of the compliance monitoring and enforcement processes.
8. Achieve reasonable timelines in processing violations, penalties and settlement agreements (less than 100 days).

### Audits

1. Conduct approximately 52 audits, 18 at the entity's site and the remaining 34 at Texas RE's offices, per the 2010 schedule, Texas RE procedures and the provisions of the NERC CMEP.
2. Perform Spot Checks, including a sample of entities for spot checks of the CIP standards.
3. Continue to work with other Regional Entities to improve auditing consistency and reduce the cost of audits for Registered Entities with operations in multiple regions.
4. Complete a review of policies and procedures with the goal of improving the clarity of communications with Registered Entities, to determine how to mitigate the cost of compliance without impacting reliability, and meeting compliance with NERC ROP modifications and NERC guidance.
5. Prepare an overall CMEP implementation plan for the 2011 program by November 1, 2010, including recommendations from the FERC and upcoming NERC audit of Texas RE.

### **Funding Requirements — Explanation of Increase (Decrease) Over 2010 Approved Budget**

The funding requirement reflects an increase of \$1,679K over the Original Texas RE's 2010 Approved Budget because of Texas RE's required start up costs and increased administrative operational expenses. These increased indirect expenses were allocated to the direct statutory programs on the basis of proportional numbers of FTE employees in each statutory program.

### **Technical Feasibility Exceptions**

#### **TFE Program Scope and Description**

The CIP standards allow for registered entities to request TFEs to certain of the standard requirements on the grounds of technical feasibility or technical limitations. NERC issued initial procedures for the processing of TFEs, but there is still great uncertainty regarding the workload requirements and longevity of the TFE review and evaluation process. To date, 48 ERCOT Region registered entities have declared critical cyber assets, and each of these registered entities must be audited against the CIP standards requirements. Using the information available, including the NERC guidance, Texas RE has used its best efforts to estimate the workload requirements for its review and evaluation of TFEs in the ERCOT region, including coordination with NERC and the other Regional Entities, in accordance with its below-listed assumptions. Texas RE estimates that each of the registered entities with critical cyber assets

will submit an average of five (5) TFEs (totaling 240 TFEs), and that these 240 TFEs will be screened and verified over the next two years (2010-2011), or 120 TFEs per year.

Texas RE estimates that screening of each of these TFEs will require 16 hours of staff labor and the verification will require 34 hours of staff labor. Additionally, there will be approximately 6 hours of staff support required for development and maintenance of online forms, data management, and to monitor periodic reporting of TFE status. Therefore the total estimated impact is 56 hours per TFE. The total effort given these assumptions is 6,720 hours in 2010 (6,000 hours for engineering/information technology/legal labor (3.6 FTEs) and 720 hours of support labor (0.4 FTEs), or a total of 4 FTEs). This FTE increase would equate to approximately \$651K in additional expense plus cash reserves of approximately \$133K. Texas RE acknowledges, however, that the estimated workload for the TFE evaluation is based upon many assumptions that cannot yet be verified. For this reason, Texas RE seeks to add only \$400K, for 3 FTEs for TFE evaluation activities at this time.

Texas RE will monitor the workload actually required to process the TFEs as they are submitted. If the total number of TFEs or the actual workload required for processing the TFEs significantly exceeds the \$400K budget estimate, Texas RE would initially use its cash reserves and will seek a 2010 budget supplement. If the total number of TFEs is significantly less than the above estimate or if the workload for completing TFEs is significantly less than the amount budgeted, any savings will be applied to a future budget year.

The estimates above do not include staff enforcement time required if violations are assessed during the TFE evaluation. Should a large number of violations be assessed as a result of TFE evaluations, this would have a significant impact on enforcement staff and additional resources will be required.

### **TFE Program Key Assumptions**

- Texas RE will perform TFE evaluations for registered entities in the ERCOT Region and will coordinate with the other Regions to ensure consistent treatment of similar requested TFEs.
- TFE processing will require a preliminary screening of the TFE for completeness and reasonableness for acceptance on an interim basis. Screening is assumed to be completed within 60 days of receipt by the regional entity.
- Texas RE will conduct a thorough review of the TFE and proposed mitigating measures, and will prepare its justification for approval or denial of the TFE within 360 days of the initial submittal of the TFE, unless otherwise extended by the regional entity with the concurrence of NERC, based on criteria provided by NERC.
- The initial screening and thorough review of each TFE will be conducted off-site (not at the office of the Registered Entity and normally at the Texas RE offices) and Registered Entities will electronically submit all documentation required to review TFEs, including Critical Energy Infrastructure Information (CEII) associated with TFEs, to Texas RE. Registered entities will submit the information through either (1) encrypted email or (2) encrypted or password protected CDs, DVDs, or other mobile storage devices. Texas RE will ensure that confidential data and information received, including Critical Energy Infrastructure Information (CEII), are secured, in accordance with Section 1500 of NERC Rules of Procedure. Unless and until Texas RE can confirm that its servers are appropriately secure, Texas RE will maintain all CEII on password protected or

encrypted mobile storage devices which are maintained in locked fire-proof filing cabinets, in accordance with its Handling Guidelines for CEII Corporate Procedure, and Texas RE will only view registered entity CEII on designated secured (password protected) computers that are not network-connected to either the Internet or the Texas RE corporate local area network.

- If a TFE is found to be deficient in the initial screening or during the thorough review, the registered entity will be provided 30 days to remedy the deficiency. If the registered entity fails to comply with the mitigation measures in its own TFE, the entity may be referred to Texas RE enforcement for processing of a possible violation. Registered entities will have a 'safe harbor' from enforcement while a TFE is pending acceptance by Texas RE and while the entity is performing in accordance with the TFE mitigation plan.
- TFEs are associated with and permitted for only CIP-005 requirements 2.4, 2.6, 3.1, and 3.2; and CIP-007 requirements 2.3, 4, 5.3, 5.3.1, 5.3.2, 5.3.3, 6, and 6.3.
- If a registrant refuses to submit materials or documents due to CEII concerns and requests that Texas RE only review materials on-site, Texas RE will not approve the request, unless the registered entity is prohibited by law from disclosing information designated as Confidential Information, Classified National Security Information, NRC Safeguards Information and/or Protected FOIA Information to any person who is not an Eligible Reviewer (such as, for example, the restriction on access to Classified National Security Information specified in Section 4.1 of Executive Order No. 12958, as amended). In such an instance, the TFE Request shall identify the Confidential Information, Classified National Security Information, NRC Safeguards Information and/or Protected FOIA Information that is subject to such restrictions on disclosure and shall identify the criteria which a person must meet in order to be an Eligible Reviewer of the Confidential Information, Classified National Security Information, NRC Safeguards Information and/or Protected FOIA Information. The registered entity must submit all information that is not so designated.
- Registered entities will be required to provide quarterly updates on the status of TFEs compared to mitigation plan milestones. Texas RE will be expected to review the completion of a TFE in a manner similar to a spot check.
- TFEs will be grouped by common equipment/device types. Therefore, if there is one vulnerability that affects several types of devices, of which an entity has hundreds of such devices, Texas RE assumes that an entity will submit a single TFE for such vulnerability.
- NERC will provide review, input, and visibility (such as through a shared national database for use by the Regions) for consistency of the TFEs and will also develop common TFEs to provide better consistency and efficiency across Regions.

### **Staffing Summary to Support TFE Processing**

The TFE processing and evaluation will require three (3.0) Compliance FTEs, as follows:

- Two (2.0) FTEs for TFE screening and verification, and mitigation plan review and follow-up.
- One (1.0) FTE for TFE data base administration and tracking.



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At the end of the two-year period (after 2011), Texas RE will better understand the scope of the CIP compliance activity (including overflow work associated with balance of nuclear plant audits) and will evaluate staffing needs going forward. Texas RE believes the three (3.0) new TFE-related staff will transition into assuming responsibility for additional work associated with CIP audits, spot checks, investigations and enforcement activities, as well as follow-up on questions and concerns from registered entities.

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**Compliance Enforcement and Organization Registration and Certification Program**

Funding sources and related expenses for the compliance enforcement and organization registration and certification section of the 2010 business plan are shown in the table below.

<b>Statement of Activities</b>			
<b>2010 Approved Budget &amp; 2010 Amended Budget</b>			
<b>Compliance and Organization Registration and Certification</b>			
	2010 Approved Budget	2010 Adjustment to the Approved Budget	2010 Amended Budget
<b>Funding</b>			
<b>ERO Funding</b>			
ERO Assessments	\$ 5,067,667	\$ 1,678,562	\$ 6,746,229
Penalty Sanctions	-		-
<b>Total ERO Funding</b>	<b>\$ 5,067,667</b>	<b>\$ 1,678,562</b>	<b>\$ 6,746,229</b>
Membership Dues	-		-
Testing Fees	-		-
Services & Software	-		-
Workshops	-		-
Interest	-		-
Miscellaneous	-		-
<b>Total Funding</b>	<b>\$ 5,067,667</b>	<b>\$ 1,678,562</b>	<b>\$ 6,746,229</b>
<b>Expenses</b>			
<b>Personnel Expenses</b>			
Salaries	\$ 2,037,418		\$ 2,037,418
Payroll Taxes	161,372		161,372
Benefits	221,580		221,580
Retirement Costs	289,434		289,434
<b>Total Personnel Expenses</b>	<b>\$ 2,709,803</b>	<b>\$ -</b>	<b>\$ 2,709,803</b>
<b>Meeting Expenses</b>			
Meetings	\$ 4,000		\$ 4,000
Travel	154,664		154,664
Conference Calls	-		-
<b>Total Meeting Expenses</b>	<b>\$ 158,664</b>	<b>\$ -</b>	<b>\$ 158,664</b>
<b>Operating Expenses</b>			
Consultants & Contracts	\$ -		\$ -
Office Rent	-		-
Office Costs	12,062		12,062
Professional Services	428,660		428,660
Miscellaneous	15,561		15,561
Depreciation	141,107		141,107
<b>Total Operating Expenses</b>	<b>\$ 597,389</b>	<b>\$ -</b>	<b>\$ 597,389</b>
<b>Total Direct Expenses</b>	<b>\$ 3,465,857</b>	<b>\$ -</b>	<b>\$ 3,465,857</b>
<b>Indirect Expenses</b>	<b>\$ 1,438,898</b>	<b>\$ 970,754</b>	<b>\$ 2,409,652</b>
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total Expenses</b>	<b>\$ 4,904,755</b>	<b>\$ 970,754</b>	<b>\$ 5,875,509</b>
<b>Change in Assets</b>	<b>\$ 162,912</b>	<b>\$ 707,808</b>	<b>\$ 870,720</b>
<b>Fixed Assets</b>			
Depreciation	\$ (141,107)	\$ -	\$ (141,107)
Computer & Software CapEx	274,237	100,000	374,237
Furniture & Fixtures CapEx	15,215		15,215
Equipment CapEx	-		-
Leasehold Improvements	-		-
<b>(Incr)Dec in Fixed Assets</b>	<b>\$ (148,345)</b>	<b>\$ (100,000)</b>	<b>\$ (248,345)</b>
Allocation of Fixed Assets	\$ (14,568)	\$ (607,808)	\$ (622,375)
<b>Change in Fixed Assets</b>	<b>\$ (162,912)</b>	<b>\$ (707,808)</b>	<b>\$ (870,720)</b>
<b>TOTAL CHANGE IN ASSETS</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

## **Explanations of Variances –Amended 2010 Budget versus Approved 2010 Budget**

### **Funding Sources**

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

### **Personnel Expenses**

- N/A

### **Meeting Expenses**

- N/A

### **Operating Expenses**

- N/A

### **Indirect Expenses**

- Indirect expenses are increasing by \$971K over the Original Texas RE's 2010 Approved Budget, due to the start-up costs and the increased administrative expenses of Texas RE. These increased indirect expenses were allocated to the direct statutory programs on the basis of proportional numbers of FTE employees in each statutory program. The result is a total of \$2,410K for indirect expenses for 2010.

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

- N/A

### **Fixed Asset Additions**

- Fixed asset additions are increasing due to the allocation of the increased administrative services' fixed asset additions which are required for the start-up of Texas RE, in the amount of approximately \$608K. Also, there is a need to establish a Texas RE Compliance Monitoring and Enforcement Data Management System tool at a cost of \$100K. The result of these additions brings the total of fixed asset additions to \$871K (net of depreciation) for 2010.

**Training, Education, and Operator Certification Program**

<b>Training, Education, and Operator Certification Program Resources</b>			
(in whole dollars)			
	2010 Approved Budget	2010 Amended Budget	Increase(Decrease)
Total FTEs	0.97	0.97	0.00
Total Direct Expenses	\$328,735	\$328,735	\$0
Total Indirect Expenses	\$64,442	\$107,918	\$43,476
Total Expenses	\$393,177	\$436,653	\$43,476

The Texas RE Training, Education, and Operator Certification program provides the education and training necessary to understand and operate the BPS, in accordance with NERC ROP Section 900. In 2010, the Texas RE Training program will develop materials for and plan to hold at least:

- Two (2) full-day Standards and Compliance workshops;
- One (1) additional workshop focusing on standards;
- Two (2) additional workshops focusing on CIP compliance.

In addition to the above workshops, Texas RE also intends to coordinate and facilitate six (6) regular sessions of the ERCOT Operations Training Seminar in 2010. The purpose of this seminar is to refresh the understanding of operational fundamentals; introduce changes occurring to operational interfaces, equipment, systems, and processes; address the impact of market processes to system performance and operation; and address emerging issues in performance and system reliability. Texas RE will also facilitate the ERCOT Operator Certification Program, including maintaining and updating the ERCOT Fundamentals Training Manual and administering the System Operator testing process.

The Texas RE Training staff 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, and 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.

**2010 Key Assumptions:**

- Texas RE will develop and deliver two (2) Standards and Compliance workshops, two (2) CIP Compliance workshops and six sessions of the Operations Training seminar in 2010.
- Texas RE will develop and deliver one (1) Reliability Standards workshop in 2010.
- The Training, Education, and Operator Certification program will remain a Statutory function with the Operations Training Seminar revenues offsetting the majority of the seminar's expenses.

**2010 Goals and Key Deliverables:**

1. Develop two (2) full-day high quality 2010 Standards and Compliance workshops (approximately 125 stakeholders each)
2. Develop and deliver one (1) full-day Reliability Standards workshop
3. Develop and deliver two (2) full-day quality CIP workshops
4. Coordinate and host six (6) sessions of the four-day ERCOT region Operator Training seminar
5. Maintain a database for tracking seminar and workshop participants and feedback and use this feedback to continue to improve on future seminars and workshops

**Funding Requirements — Explanation of Increase (Decrease) over 2010 Approved Budget**

The funding requirements reflect an increase of \$71K over the Original Texas RE's 2010 Approved Budget because of the required start-up costs and increased administrative costs of Texas RE. These increased indirect expenses were allocated to the direct statutory programs on the basis of proportional numbers of FTE employees in each statutory program.

## Training, Education, and Operator Certification Program

Funding sources and related expenses for the training, education, and operator certification section of the 2010 business plan are shown in the table below.

<b>Statement of Activities</b>			
<b>2010 Approved Budget &amp; 2010 Amended Budget</b>			
<b>Training and Education</b>			
	2010 Approved Budget	2010 Adjustment to the Approved Budget	2010 Amended Budget
<b>Funding</b>			
<b>ERO Funding</b>			
ERO Assessments	\$ 213,829	\$ 71,349	\$ 285,179
Penalty Sanctions	-		-
<b>Total ERO Funding</b>	<b>\$ 213,829</b>	<b>\$ 71,349</b>	<b>\$ 285,179</b>
Membership Dues	-		-
Testing Fees	-		-
Services & Software	-		-
Workshops	180,000		180,000
Interest	-		-
Miscellaneous	-		-
<b>Total Funding</b>	<b>\$ 393,829</b>	<b>\$ 71,349</b>	<b>\$ 465,179</b>
<b>Expenses</b>			
<b>Personnel Expenses</b>			
Salaries	\$ 81,122		\$ 81,122
Payroll Taxes	6,425		6,425
Benefits	8,834		8,834
Retirement Costs	11,511		11,511
<b>Total Personnel Expenses</b>	<b>\$ 107,893</b>	<b>\$ -</b>	<b>\$ 107,893</b>
<b>Meeting Expenses</b>			
Meetings	\$ 220,000		\$ 220,000
Travel	-		-
Conference Calls	-		-
<b>Total Meeting Expenses</b>	<b>\$ 220,000</b>	<b>\$ -</b>	<b>\$ 220,000</b>
<b>Operating Expenses</b>			
Consultants & Contracts	\$ -		\$ -
Office Rent	-		-
Office Costs	-		-
Professional Services	-		-
Miscellaneous	842		842
Depreciation	-		-
<b>Total Operating Expenses</b>	<b>\$ 842</b>	<b>\$ -</b>	<b>\$ 842</b>
<b>Total Direct Expenses</b>	<b>\$ 328,735</b>	<b>\$ -</b>	<b>\$ 328,735</b>
<b>Indirect Expenses</b>	<b>\$ 64,442</b>	<b>\$ 43,476</b>	<b>\$ 107,918</b>
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total Expenses</b>	<b>\$ 393,177</b>	<b>\$ 43,476</b>	<b>\$ 436,653</b>
<b>Change in Assets</b>	<b>\$ 652</b>	<b>\$ 27,874</b>	<b>\$ 28,526</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>
Allocation of Fixed Assets	\$ (652)	\$ (27,874)	\$ (28,526)
<b>Change in Fixed Assets</b>	<b>\$ (652)</b>	<b>\$ (27,874)</b>	<b>\$ (28,526)</b>
<b>TOTAL CHANGE IN ASSETS</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

## Explanations of Variances –2010 Amended Budget versus Approved 2010 Budget

### Funding Sources

- Training, Education and Operator Certification is planned to be nearly 39% self-funded in 2010 through registration fees from attendees of the OTS. The remaining 61% of this program is funded through ERO assessments.

### Personnel Expenses

- N/A

### Meeting Expenses

- N/A

### Operating Expenses

- N/A

### Indirect Expenses

- Indirect expenses are increasing by \$43K due to the start-up costs and the increased administrative expenses of Texas RE. The result is a total of \$108K for indirect expenses for 2010.

### Other Non-Operating Expenses

- N/A

### Fixed Asset Additions

- Fixed asset additions are increasing due to the allocation of the administrative services' fixed asset expenditures which are required for the start-up of Texas RE, in the amount of approximately \$28K, bringing the total of fixed asset additions to \$29K for 2010.

## Reliability Assessment and Performance Analysis Program

<b>Reliability Assessment and Performance Analysis Program Resources</b>			
<small>(in whole dollars)</small>			
	2010 Approved Budget	2010 Amended Budget	Increase(Decrease)
Total FTEs	2.44	2.44	0.00
Total Direct Expenses	\$290,095	\$290,095	\$0
Total Indirect Expenses	\$161,505	\$270,464	\$108,959
Total Expenses	\$451,600	\$560,559	\$108,959

### Program Scope and Functional Description:

#### Reliability Assessment Reports

ERCOT ISO has traditionally assembled the data for and prepared all seasonal, annual long-term, and other required planning and reliability assessments for the ERCOT region, using ERCOT ISO planning staff and input from stakeholder technical experts. As the regional entity, Texas RE coordinates with ERCOT ISO regarding the timing of these assessments, and Texas RE reviews the assessments for completeness. Because Texas RE plans to continue to rely upon ERCOT ISO Planning staff for the research and preparation of these assessments, Texas RE's coordination and review of these assessments is a small portion of its 2010 budget.

#### Event Analysis

As Reliability Coordinator, ERCOT ISO monitors the system in real time and reports a variety of incidents and disturbances to Texas RE for its review and compliance analysis. These incidents and disturbances include Department of Energy and NERC reportable events, Emergency Electric Alert (EEA) implementation, special protection system activation, equipment outages and failures, underfrequency and undervoltage relay operation, and any failure to meet NERC requirements related to frequency control or transmission security.

Texas RE reviews all reported incidents and disturbances to determine if a compliance analysis is needed. If the initial review indicates that a standard might potentially have been violated, Texas RE performs a compliance analysis and obtains more information from the registered entity, as needed. If the compliance analysis indicates that further review, such as a CIQ, Spot Check, or CVI is justified, further analysis is performed as described under the CMEP



description. If the initial review indicates that any Protocol might have been violated, Texas RE performs a Non-statutory compliance analysis as part of its Non-statutory activities.

Texas RE staff also attend ERCOT ISO reliability-based stakeholder committees, such as the Reliability & Operating Subcommittee (ROS), Performance Disturbance Compliance Working Group (PDCWG), Operations Working Group (OWG) and the Wind Operations Task Force (WOTF) to better understand the reliability issues and challenges for the ERCOT region and to provide comments from the Texas RE perspective when needed. Texas RE also regularly communicates with NERC staff regarding any reliability challenges of special interest in the ERCOT region (e.g. wind generation) to keep NERC apprised of risks, improvements, and on-going strategy.

On a monthly basis, Texas RE also calculates and reports on a variety of reliability performance metrics (e.g. Regional (ERCOT Protocol) measures and NERC Reliability Standards measures) to its Board of Directors. Texas RE also uses this information, when appropriate, to identify potential standards violations or declining reliability trends that need to be investigated.

**2010 Key Assumptions:**

- ERCOT ISO will continue to research, assemble data for, and prepare the seasonal, long-term, and other requested assessments, and Texas RE will coordinate the timing of and review such assessments (and make comments, if required) before submitting the assessments to NERC
- Texas RE will review approximately 80 reports of incidents, complaints, and disturbances

**2010 Goals and Key Deliverables:**

1. Increase Texas RE participation in the Regional Planning Group activities
2. Coordinate the communication of all reliability assessment-related information as requested by NERC (this is an additional goal not stated in the 2010 Approved Business Plan and Budget).
3. Timely review and submit all required assessments to NERC (or ensure required assessments are submitted to NERC on schedule), providing comments to the assessments, as needed. (This goal has been restated from the 2010 Approved Business Plan and Budget.)
4. Timely review all required incidents, complaints and disturbances
5. Communicate and coordinate issues of reliability concern with NERC

**Funding Requirements — Explanation of Increase (Decrease) over 2010 Approved Budget**

## Section B — 2010 Regional Entity Budget

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The funding requirements reflect an increase of \$177K over the Original Texas RE's 2010 Approved Budget because of Texas RE's start-up costs and increased administrative expenses and fixed asset additions. These increased indirect expenses were allocated to the direct statutory programs on the basis of proportional numbers of FTE employees in each statutory program.

## Reliability Assessment and Performance Analysis Program

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

<b>Statement of Activities</b>			
<b>2010 Approved Budget &amp; 2010 Amended Budget</b>			
<b>Reliability Assessment and Performance Analysis</b>			
	2010 Approved Budget	2010 Adjustment to the Approved Budget	2010 Amended Budget
<b>Funding</b>			
<b>ERO Funding</b>			
ERO Assessments	\$ 453,235	\$ 177,181	\$ 630,416
Penalty Sanctions	-		-
<b>Total ERO Funding</b>	<b>\$ 453,235</b>	<b>\$ 177,181</b>	<b>\$ 630,416</b>
Membership Dues	-		-
Testing Fees	-		-
Services & Software	-		-
Workshops	-		-
Interest	-		-
Miscellaneous	-		-
<b>Total Funding</b>	<b>\$ 453,235</b>	<b>\$ 177,181</b>	<b>\$ 630,416</b>
<b>Expenses</b>			
<b>Personnel Expenses</b>			
Salaries	\$ 217,004		\$ 217,004
Payroll Taxes	17,187		17,187
Benefits	23,632		23,632
Retirement Costs	30,793		30,793
<b>Total Personnel Expenses</b>	<b>\$ 288,615</b>	<b>\$ -</b>	<b>\$ 288,615</b>
<b>Meeting Expenses</b>			
Meetings	\$ -		\$ -
Travel	806		806
Conference Calls	-		-
<b>Total Meeting Expenses</b>	<b>\$ 806</b>	<b>\$ -</b>	<b>\$ 806</b>
<b>Operating Expenses</b>			
Consultants & Contracts	\$ -		\$ -
Office Rent	-		-
Office Costs	-		-
Professional Services	-		-
Miscellaneous	673		673
Depreciation	-		-
<b>Total Operating Expenses</b>	<b>\$ 673</b>	<b>\$ -</b>	<b>\$ 673</b>
<b>Total Direct Expenses</b>	<b>\$ 290,095</b>	<b>\$ -</b>	<b>\$ 290,095</b>
<b>Indirect Expenses</b>	<b>\$ 161,505</b>	<b>\$ 108,959</b>	<b>\$ 270,464</b>
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total Expenses</b>	<b>\$ 451,600</b>	<b>\$ 108,959</b>	<b>\$ 560,559</b>
<b>Change in Assets</b>	<b>\$ 1,635</b>	<b>\$ 68,222</b>	<b>\$ 69,857</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>
Allocation of Fixed Assets	\$ (1,635)	\$ (68,222)	\$ (69,857)
<b>Change in Fixed Assets</b>	<b>\$ (1,635)</b>	<b>\$ (68,222)</b>	<b>\$ (69,857)</b>
<b>TOTAL CHANGE IN ASSETS</b>	<b>\$ (0)</b>	<b>\$ -</b>	<b>\$ -</b>

## **Explanations of Variances – Proposed 2010 Amended Budget versus Approved 2010 Budget**

### **Funding Sources**

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

### **Personnel Expenses**

- N/A

### **Meeting Expenses**

- N/A

### **Operating Expenses**

- N/A

### **Indirect Expenses**

- Indirect expenses are increasing by \$109K due to the start-up costs and the increased administrative expenses of Texas RE. The result is a total of \$270K for indirect expenses through 2010.

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

- N/A

### **Fixed Asset Additions**

- Fixed asset additions are increasing due to the allocation of increased administrative services' fixed asset expenditures which are required for the start-up of Texas RE, in the amount of approximately \$68K, bringing the total fixed asset additions to \$70K for 2010.

## Situational Awareness and Infrastructure Security Program

<b>Situational Awareness and Infrastructure Security Program Resources</b>			
(in whole dollars)			
	2010 Approved Budget	2010 Amended Budget	Increase(Decrease)
Total FTEs	3.03	3.03	0.00
Total Direct Expenses	\$391,907	\$391,907	\$0
Total Indirect Expenses	\$200,226	\$335,309	\$135,083
Total Expenses	\$592,134	\$727,217	\$135,083

### Program Scope and Functional Description

This program supports two distinct functions. Situational awareness is focused on near real-time analysis of the BPS for ERCOT ISO. Infrastructure Security focuses on protecting tangible assets from a variety of threats. The majority of activity for this program in 2010 relates to Infrastructure Security, however, some resources are also planned for Situational Awareness.

#### Situational Awareness

Currently, Texas RE relies significantly on the ERCOT ISO to provide details on situational issues. Texas RE Staff have direct access to historical data via the data warehouse. There are two aspects of situational awareness which require Texas RE involvement in 2010:

1. Texas RE will continue to participate in the Situational Awareness for FERC, NERC, and Regional Entities (SAFNR) Project. SAFNR Project goal is to enable 100% of reliability coordinators in the United States to display interconnection system conditions to FERC, NERC, and the respective regional entities. This will be accomplished through internet-based systems that provide visual displays for FERC, NERC, and the Regional Entities (REs) while all the data resides at the reliability coordinators.

The SAFNR Project team is comprised of FERC Office of Electric Reliability staff, NERC Situational Awareness staff, designated RE staff, the Reliability Coordinators (RCs) located in the United States, and the regional entity managers.

2. Texas RE situational awareness and events analysis staff communicate with NERC, FERC and other regions on observed events, disturbances, or BPS condition. NERC led conference calls are held at a minimum bi-weekly. In the case of more severe events (for example: major blackout or hurricane), daily as needed.

**2010 Goals and Key Deliverables**

Situational Awareness

SAFNR’s goal is to provide NERC, FERC and each RE with a common view of the interconnections. In 2010, this includes:

1. Modify existing displays or create new ones to make the visualization more consistent.
2. Assess what aspects are working well, identify areas for improvement and review cost implications.
3. Clarify what is driving the related business case and possibly build in performance metrics from previous phases to help quantify the value.

**Funding Requirements — Explanation of Increase (Decrease) Over 2010 Approved Budget**

The funding requirements reflect an increase of \$220K from the 2010 Approved Budget for Original Texas RE to the 2010 Amended Budget because of Texas RE’s start-up costs and increased administrative expenses. These increased indirect expenses were allocated to the direct statutory programs on the basis of proportional numbers of FTE employees in each statutory program.

<b>Critical Infrastructure Protection Resources</b>			
<b>(Included in Total Situational Awareness and Infrastructure Security)</b>			
(in whole dollars)			
	2010 Approved Budget	2010 Amended Budget	Increase(Decrease)
Total FTEs	n/a	n/a	n/a
Total Direct Expenses	n/a	n/a	n/a
Total Indirect Expenses	n/a	n/a	n/a
Total Expenses	n/a	n/a	n/a

*Exhibit not completed due to personnel salary confidentiality.*

## Program Scope and Functional Description

Responsible entities must become Compliant with Critical Infrastructure Protection (CIP) Standards based on the NERC implementation schedules. ERCOT ISO is currently the only registered Balancing Authority (BA), Transmission Operator (TOP), and Reliability Coordinator (RC) in the ERCOT region and was the only entity required to self-certify compliance to NERC's Urgent Action Cyber Security Standard 1200. As such, only ERCOT ISO must be either Auditably Compliant or Compliant with all of the CIP Standards requirements by the end of the second quarter 2009; and Auditably Compliant with all CIP Standards requirements by the end of the second quarter 2010.

All new registered entities must also become Compliant with all CIP standards requirements in accordance with the CIP implementation plan.

Texas RE will continue to play an active role during the implementation of the CIP standards requirements. To provide time for Responsible Entities to examine their policies and procedures, to assemble the necessary documentation, and to meet the requirements of the CIP standards, compliance assessment began in 2007. Status reports are also being requested from Responsible Entities to verify that entities are on schedule and meeting the implementation plan. NERC expects its Regional Entities to provide assistance and education on the CIP standards to ease the transition. Texas RE is budgeting to provide training to registered entities and other stakeholders under the training function budget. Some of the content in this training will be related to cyber-security and will be internally developed.

This program will support activities associated with cyber security, including monitoring and enforcement of compliance with the CIP (CIP-001 thru 009) standards. The intent of the NERC CIP Standards is to ensure that all entities responsible for the reliability of the BPS identify and protect critical cyber assets that control or could impact the reliability of the BPS. The CIP Standards requirements are being communicated to all responsible entities to ensure compliance in accordance with the CIP Implementation Plan. This requires a significant amount of communication with the ERCOT ISO Security Department and entities responsible for complying with the CIP standards. Compliance Audits, self-certifications, and spot checks will be required to verify compliance.

## 2010 Key Assumptions

- Develop and Implement CIP audit program during 2010.
- Texas RE will only have one major CIP audit in 2010.
- Conduct all CIP Spot Checks at the Texas RE offices (no CIP audit travel will be required in 2010).
- Semi-annual CIP Self-Certifications will be required of registered entities in 2010.

- NERC will be responsible for CIP audits of nuclear facilities, as contemplated by NERC's approved Business Plan and Budget. (This assumption has been restated from the 2010 Approved Business Plan and Budget.)
- Six (6) CIP spot checks will be done in 2010.

**2010 Goals and Key Deliverables**

1. Finalize Texas RE CIP audit procedures.
2. Complete the CIP audit of the ERCOT ISO.
3. Complete a minimum of 6 CIP spot checks.
4. Identify CIP Audit Team for 2011.
  - a. Any additional skill sets that may be needed for 2011.
5. Semi-Annual CIP Self-Certifications for 2010.
6. Develop education plan and deliver 2 CIP workshops for registered entities (see Training section) before most entities enter Auditably Compliant phase and CIP audits begin. (This goal is slightly revised from the 2010 Approved Business Plan and Budget.)
7. Enhance the Texas RE website with CIP information and links.



## Situational Awareness and Infrastructure Security Program

Funding sources and related expenses for the situational awareness and infrastructure security section of the 2010 business plan are shown in the table below.

<b>Statement of Activities</b>			
<b>2010 Approved Budget &amp; 2010 Amended Budget</b>			
<b>Situational Awareness and Infrastructure Security</b>			
	2010 Approved Budget	2010 Adjustment to the Approved Budget	2010 Amended Budget
<b>Funding</b>			
<b>ERO Funding</b>			
ERO Assessments	\$ 594,161	\$ 219,661	\$ 813,822
Penalty Sanctions	-		-
<b>Total ERO Funding</b>	<b>\$ 594,161</b>	<b>\$ 219,661</b>	<b>\$ 813,822</b>
Membership Dues	-		-
Testing Fees	-		-
Services & Software	-		-
Workshops	-		-
Interest	-		-
Miscellaneous	-		-
<b>Total Funding</b>	<b>\$ 594,161</b>	<b>\$ 219,661</b>	<b>\$ 813,822</b>
<b>Expenses</b>			
<b>Personnel Expenses</b>			
Salaries	\$ 291,164		\$ 291,164
Payroll Taxes	23,060		23,060
Benefits	31,708		31,708
Retirement Costs	41,316		41,316
<b>Total Personnel Expenses</b>	<b>\$ 387,247</b>	<b>\$ -</b>	<b>\$ 387,247</b>
<b>Meeting Expenses</b>			
Meetings	\$ -		\$ -
Travel	4,260		4,260
Conference Calls	-		-
<b>Total Meeting Expenses</b>	<b>\$ 4,260</b>	<b>\$ -</b>	<b>\$ 4,260</b>
<b>Operating Expenses</b>			
Consultants & Contracts	\$ -		\$ -
Office Rent	-		-
Office Costs	-		-
Professional Services	-		-
Miscellaneous	400		400
Depreciation	-		-
<b>Total Operating Expenses</b>	<b>\$ 400</b>	<b>\$ -</b>	<b>\$ 400</b>
<b>Total Direct Expenses</b>	<b>\$ 391,907</b>	<b>\$ -</b>	<b>\$ 391,907</b>
<b>Indirect Expenses</b>	<b>\$ 200,226</b>	<b>\$ 135,083</b>	<b>\$ 335,309</b>
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total Expenses</b>	<b>\$ 592,134</b>	<b>\$ 135,083</b>	<b>\$ 727,217</b>
<b>Change in Assets</b>	<b>\$ 2,027</b>	<b>\$ 84,578</b>	<b>\$ 86,605</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>
Allocation of Fixed Assets	\$ (2,027)	\$ (84,578)	\$ (86,605)
<b>Change in Fixed Assets</b>	<b>\$ (2,027)</b>	<b>\$ (84,578)</b>	<b>\$ (86,605)</b>
<b>TOTAL CHANGE IN ASSETS</b>	<b>\$ 0</b>	<b>\$ -</b>	<b>\$ -</b>

## **Explanations of Variances – Proposed 2010 Amended Budget versus Approved 2010 Budget**

### **Funding Sources**

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

### **Personnel Expenses**

- N/A

### **Meeting Expenses**

- N/A

### **Operating Expenses**

- N/A

### **Indirect Expenses**

- Indirect expenses are increasing by \$135K due to the start-up costs and the increased administrative expenses of Texas RE. The result is a total of \$335K for indirect expenses through 2010. These increased indirect expenses were allocated to the direct statutory programs on the basis of proportional numbers of FTE employees in each statutory program.

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

- N/A

### **Fixed Asset Additions**

- Fixed asset additions are increasing due to the allocation of increased administrative services' fixed asset expenditures which are required for the start-up of Texas RE, in the amount of approximately \$85K, bringing the total of fixed asset additions to \$87K for 2010.

## Administrative Services

<b>Administrative Services</b>			
(in whole dollars)			
	2010 Approved Budget	2010 Amended Budget	Increase(Decrease)
Total FTEs	3.76	9.26	5.50
Total Direct Expenses	\$2,001,482	\$3,351,783	\$1,350,301

### Program Scope and Functional Description

All administrative activities are considered indirect (including General and Administrative or “G&A”, Legal and Regulatory, Information Technology, Human Resources, and Finance) and the salaries of all employees in the administrative areas are reflected in the G&A program, to protect the confidentiality of salaries.

### General and Administrative

The CEO carries on the general affairs of the Texas RE. The CEO is independent of any registered entity and reports exclusively to the Texas RE Board of Directors. The CEO is responsible for:

- Overseeing and managing the activities of Texas RE.
- Making final decisions with respect to non-contested enforcement related to compliance actions for violations of reliability standards.
- Making employment-related decisions for all employees of Texas RE.
- Making an annual report and periodic reports to Texas RE’s Board concerning the activities and expenditures of Texas RE.
- Ensuring that Texas RE files all required reports with NERC.
- Monitoring the expenditures of the monies received by Texas RE to ensure that such are deployed in accordance with the approved Texas RE Budget (in cooperation with the Finance Staff).
- Retaining or terminating outside counsel or other advisors as deemed appropriate.
- Performing such other duties as may be determined from time to time by Texas RE’s Board, for the benefit of the Texas RE.

An Executive Assistant will be responsible for providing executive-level administrative support to the Texas RE CEO. The Executive Assistant will also perform general office manager activities and provide support to other Texas RE staff as needed.

## 2010 Key Assumptions

- Original Texas RE will perform all Statutory and Non-statutory activities until Implementation.
- Upon Implementation Texas RE will perform all Statutory and Non-statutory activities as the regional entity.
- 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 to 46.00 staff (39.50 FTEs Statutory, 6.50 FTEs Non-statutory), including an increase of 6.00 FTE resulting from the formation of Texas RE as a separate entity from ERCOT.
- 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.
- The costs currently incurred under the MOU are eliminated, and these cost reductions are reflected in column 4 in the “General & Administrative” Statement of Activities table on page 49.

## 2010 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.

## Funding Requirements — Explanation of Increase (Decrease) Over 2010 Approved Budget

- The funding requirements for this program reflect an increase of \$215K over Original Texas RE’s 2010 Approved Budget, because of Texas RE’s required start-up costs and increased administrative operational expenses. These increased indirect expenses were allocated to the direct statutory programs on the basis of proportional numbers of FTE employees in each statutory program.

Section B — 2010 Regional Entity Budget

**General and Administrative**

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

<b>Statement of Activities</b>						
<b>2010 Approved Budget &amp; 2010 Amended Budget</b>						
<b>General and Administrative - After Structural Separation</b>						
	[1]	[2]	[3]	[4]	[2]+[3]+[4]=[5]	[1]+[5]=[6]
	2010 Approved Budget	2010 Budget Start-Up Costs	2010 Budget Recurring Costs	2010 Base Budget Reductions (MOU Decreases)	2010 Adjustment to the Approved Budget	2010 Amended Budget
<b>Funding</b>						
<b>ERO Funding</b>						
ERO Assessments	\$ (80,265)	\$ -	\$ 349,842	\$ (161,632)	\$ 188,211	\$ 107,946
Penalty Sanctions	-	-	-	-	-	-
<b>Total ERO Funding</b>	<b>\$ (80,265)</b>	<b>\$ -</b>	<b>\$ 349,842</b>	<b>\$ (161,632)</b>	<b>\$ 188,211</b>	<b>\$ 107,946</b>
Membership Dues	-	-	27,000	-	27,000	27,000
Testing Fees	-	-	-	-	-	-
Services & Software	-	-	-	-	-	-
Workshops	-	-	-	-	-	-
Interest	2,000	-	-	-	-	2,000
Miscellaneous	-	-	-	-	-	-
<b>Total Funding</b>	<b>\$ (78,265)</b>	<b>\$ -</b>	<b>\$ 376,842</b>	<b>\$ (161,632)</b>	<b>\$ 215,211</b>	<b>\$ 136,946</b>
<b>Expenses</b>						
<b>Personnel Expenses</b>						
Salaries	\$ 539,855	\$ -	\$ 490,490	\$ -	\$ 490,490	\$ 1,030,345
Payroll Taxes	42,598	-	37,438	-	37,438	80,036
Benefits	54,570	-	47,960	-	47,960	102,530
Retirement Costs	80,324	-	70,594	-	70,594	150,918
<b>Total Personnel Expenses</b>	<b>\$ 717,347</b>	<b>\$ -</b>	<b>\$ 646,482</b>	<b>\$ -</b>	<b>\$ 646,482</b>	<b>\$ 1,363,829</b>
<b>Meeting Expenses</b>						
Meetings	\$ 3,600	\$ -	\$ -	\$ -	\$ -	\$ 3,600
Travel	17,158	-	-	-	-	17,158
Conference Calls	-	-	-	-	-	-
<b>Total Meeting Expenses</b>	<b>\$ 20,758</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 20,758</b>
<b>Operating Expenses</b>						
Consultants & Contracts	\$ 676,331	\$ 200,000	\$ 287,675	\$ (559,523)	\$ (71,848)	\$ 604,483
Office Rent	327,600	-	229,725	(193,425)	36,300	363,900
Office Costs	24,240	-	4,590	-	4,590	28,830
Professional Services	60,000	-	15,300	-	15,300	75,300
Miscellaneous	1,350	-	-	-	-	1,350
Depreciation	-	-	146,550	-	146,550	146,550
<b>Total Operating Expenses</b>	<b>\$ 1,089,521</b>	<b>\$ 200,000</b>	<b>\$ 683,840</b>	<b>\$ (752,948)</b>	<b>\$ 130,892</b>	<b>\$ 1,220,413</b>
<b>Total Direct Expenses</b>	<b>\$ 1,827,626</b>	<b>\$ 200,000</b>	<b>\$ 1,330,322</b>	<b>\$ (752,948)</b>	<b>\$ 777,374</b>	<b>\$ 2,605,000</b>
<b>Indirect Expenses</b>	<b>\$ (1,827,626)</b>	<b>\$ (200,000)</b>	<b>\$ (1,330,322)</b>	<b>\$ 752,948</b>	<b>\$ (777,374)</b>	<b>\$ (2,605,000)</b>
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total Expenses</b>	<b>\$ (0)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (0)</b>
<b>Change in Assets</b>	<b>\$ (78,265)</b>	<b>\$ -</b>	<b>\$ 376,842</b>	<b>\$ (161,632)</b>	<b>\$ 215,211</b>	<b>\$ 136,946</b>
<b>Fixed Assets</b>						
Depreciation	\$ -	\$ -	\$ (146,550)	\$ -	\$ (146,550)	\$ (146,550)
Computer & Software CapEx	-	-	-	-	-	-
Furniture & Fixtures CapEx	-	317,000	-	-	317,000	317,000
Equipment CapEx	-	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-	-
<b>(Incr)Dec in Fixed Assets</b>	<b>\$ -</b>	<b>\$ (317,000)</b>	<b>\$ 146,550</b>	<b>\$ -</b>	<b>\$ (170,450)</b>	<b>\$ (170,450)</b>
Allocation of Fixed Assets	\$ -	\$ 317,000	\$ (146,550)	\$ -	\$ 170,450	\$ 170,450
<b>Change in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>TOTAL CHANGE IN ASSETS</b>	<b>\$ (78,265)</b>	<b>\$ -</b>	<b>\$ 376,842</b>	<b>\$ (161,632)</b>	<b>\$ 215,211</b>	<b>\$ 136,946</b>

NOTE: The salaries of the indirect employees in G&A, Legal, Information Technology, and Finance have been consolidated for personnel confidentiality and budgeted under G&A.

## **Explanations of Variances – Proposed 2010 Amended Budget versus Approved 2010 Budget**

### **Funding Sources**

- The 2010 funding requirements are increasing \$215K over the 2010 Approved Budget. ERO assessments are increasing by \$188K, and Texas RE expects to receive \$27K for membership fees, which were not provided for in the 2010 Approved Budget. The 2010 Approved Budget assumed unspent funds of \$78K; therefore, the net funding requirement for 2010 is \$137K. Indirect program costs are allocated to the direct statutory programs.

### **Personnel Expenses**

- The primary reason for the increase of \$646K for Statutory Personnel Expenses is that Texas RE will need to hire additional staff (in addition to the partial outsourcing of) certain of its human resources (HR) and information technology (IT) services that were formerly performed by ERCOT ISO under the MOU at a lower cost. The budget for Personnel Expenses is consolidated to ensure the confidentiality of individual salaries under the General & Administrative budget. Texas RE will need to hire the following positions:
  - One (1) HR Manager to support and facilitate the HR and benefits functions for Texas RE and its employees.
  - One (1) Member Services Administrator to oversee administration of membership information and enrollment and to coordinate committee meetings and activities.
  - One (1) Finance and Accounting Manager to maintain the accounting system, financial/internal controls, budget development, payroll processing, accounts payable, accounts receivable, increased accountability, fixed assets, financial statement preparation and auditor interface.
  - One (1) Attorney to perform primarily corporate legal services, such as negotiation and preparation of contracts and other required documentation for goods, services, software licenses, and HR benefit plans, and HR legal services, all of which were previously included in the HR, information technology, finance, and other administrative services that were provided by ERCOT ISO under the MOU.
  - Two (2) IT employees to provide Texas RE with the appropriate level of IT support and skill necessary to maintain its network infrastructure and data integrity, provide desk-side support to Texas RE staff, facilitate specialized software and applications support, develop project scheduling / priority project lists, and project requirements engineering documentation (policies, procedures) creation.

### **Meeting Expenses**

- No additional travel is anticipated for the Amended 2010 Budget.

### **Operating Expenses**

- Consulting and contract expenses are decreasing \$72K, due to the net effect of reductions from the elimination of the MOU. Texas RE expects an increase in rent and facilities-related expenses of \$36K for 2010, due to a possible move at the end of 2010, because of space constraints and the expiration of Texas RE's present lease on

December 31, 2010. The recurring costs are also increasing by \$15K for Professional Services and \$5K for Office Costs which are not included in the 2010 Approved Budget. Finally, depreciation expenses are increasing \$147K as a result of fixed asset purchases required as part of the start-up costs.

**Indirect Expenses**

- The entire program/activity expense reflected for G&A will be treated as indirect expense.

**Other Non-Operating Expenses**

- None.

**Fixed Asset Additions**

- Office furniture and equipment for all Texas RE staff (office and conference room furniture, computers, servers, telephone system, software, etc.) totaling \$317K will need to be acquired as part of the start-up costs. This will be offset from a funding perspective by depreciation expense of \$147K.

## Legal and Regulatory

### Program Scope and Functional Description

Texas RE Legal and Regulatory provides legal advice and counsel to Texas RE management, board, and staff on all legal and regulatory matters affecting Texas RE, including corporate governance, transactions, personnel, governmental relations, communications, NERC registration, standards development, compliance, enforcement, and other regulatory matters. Legal staff also retains and oversees the work of outside legal counsel as needed. Legal and Regulatory employees anticipate that the primary regulatory emphasis during 2010 will include NERC registration appeals, investigation oversight, settlement coordination, and enforcement proceedings under the CMEP. Legal and Regulatory employees will also continue to review and provide feedback to NERC regarding new and modified standards, procedures, and templates used in the CMEP process. Texas RE attorneys, or outside counsel overseen by Texas RE attorneys, will represent the Texas RE in its quasi-prosecutorial role in CMEP enforcement hearings, and in NERC, FERC, and PUCT rulemakings and other proceedings. In addition to overseeing Board meetings and activities, Texas RE Legal and Regulatory staff will oversee and coordinate corporate membership enrollment, information, and meetings and will coordinate and oversee the Member Representatives Committee activities.

### 2010 Key Assumptions

Texas RE Legal and Regulatory has the following key assumptions:

- A. Original Texas RE will continue to perform all Statutory and Non-statutory activities until Implementation.
- B. Upon Implementation, Texas RE will perform the Statutory and Non-statutory activities and will operate as a separate corporation, not associated with or affiliated with ERCOT ISO, and Texas RE will receive no administrative services from ERCOT ISO.
- C. Legal and Regulatory will oversee and coordinate corporate membership and Member Representative Committee activities.
- D. The Delegation Agreement requirements and NERC expectations will remain consistent.
- E. The majority of possible violations will be handled through the settlement process.
- F. The number of contested registration and enforcement cases will remain fairly low, but will increase to two large or up to three small-to-mid-sized disputes per year.

### 2010 Goals and Key Deliverables

- 1. Coordinate Texas RE board information, meetings, and materials and maintain corporate bylaws and corporate procedures as required by law, the Delegation Agreement, NERC Rules, and FERC Orders.
- 2. Provide legal advice to the CEO and the Texas RE board, board committees, and departments, as needed on corporate, contract, transactional, regulatory, enforcement, and other matters.
- 3. Represent Texas RE in all NERC, FERC, regulatory matters, and legal proceedings.
- 4. Prosecute CMEP hearings of contested enforcement matters.



5. Act as a resource for investigations to help ensure accurate, appropriate and complete documentation is maintained and consistent procedures are followed.
6. Communicate and maintain effective relationships with NERC, FERC, the PUCT, and other governmental authorities.
7. Manage and oversee all Texas RE registration and enforcement action appeals.
8. Review Texas RE alleged violations, penalties, and sanctions for consistency.
9. Participate in settlement processes and review all settlements for consistent application of the CMEP.
10. Review and provide input to NERC regarding new and modified standards, procedures, forms, and templates.

**Funding Requirements — Explanation of Increase (Decrease) Over 2010 Approved Budget**

All expenses for this program are allocated to the statutory direct programs.

Section B — 2010 Regional Entity Budget

Legal and Regulatory

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

Statement of Activities						
2010 Approved Budget & 2010 Amended Budget						
Legal and Regulatory - After Structural Separation						
	[1]	[2]	[3]	[4]	[2]+[3]+[4]=[5]	[1]+[5]=[6]
	2010 Approved Budget	2010 Budget Start-Up Costs	2010 Budget Recurring Costs	2010 Base Budget Reductions (MOU Decreases)	2010 Adjustment to the Approved Budget	2010 Amended Budget
<b>Funding</b>						
<b>ERO Funding</b>						
ERO Assessments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Penalty Sanctions	-	-	-	-	-	-
<b>Total ERO Funding</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Membership Dues	-	-	-	-	-	-
Testing Fees	-	-	-	-	-	-
Services & Software	-	-	-	-	-	-
Workshops	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-
<b>Total Funding</b>	<u>\$ -</u>	<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>	<u>\$ -</u>
<b>Meeting Expenses</b>						
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	4,478	-	-	-	-	4,478
Conference Calls	-	-	-	-	-	-
<b>Total Meeting Expenses</b>	<u>\$ 4,478</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,478</u>
<b>Operating Expenses</b>						
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-	-	-	-	-	-
Office Costs	5,400	-	-	-	-	5,400
Professional Services	48,000	-	90,000	-	90,000	138,000
Miscellaneous	6,200	-	-	-	-	6,200
Depreciation	-	-	-	-	-	-
<b>Total Operating Expenses</b>	<u>\$ 59,600</u>	<u>\$ -</u>	<u>\$ 90,000</u>	<u>\$ -</u>	<u>\$ 90,000</u>	<u>\$ 149,600</u>
<b>Total Direct Expenses</b>	<u>\$ 64,078</u>	<u>\$ -</u>	<u>\$ 90,000</u>	<u>\$ -</u>	<u>\$ 90,000</u>	<u>\$ 154,078</u>
<b>Indirect Expenses</b>	<u>\$ (64,078)</u>	<u>\$ -</u>	<u>\$ (90,000)</u>	<u>\$ -</u>	<u>\$ (90,000)</u>	<u>\$ (154,078)</u>
<b>Other Non-Operating Expenses</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Total Expenses</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Change in Assets</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</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>	<u>\$ -</u>
Allocation of Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Change in Fixed Assets</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>TOTAL CHANGE IN ASSETS</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE: The salaries of the indirect employees in G&A, Legal, Information Technology, and Finance have been consolidated for personnel confidentiality and budgeted under G&A.

## **Explanations of Variances – Proposed 2010 Amended Budget versus Approved 2010 Budget**

### **Funding Sources**

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

### **Personnel Expenses**

- Texas RE is adding one (1) Attorney and one (1) Member Services Administrator, due to the increased workload that was formerly performed for Original Texas RE under the MOU with ERCOT ISO. However, those employees are reflected under G&A for personnel confidentiality purposes. The detail for the headcount is reflected in Table 2 within Section B.

### **Meeting Expenses**

- No additional travel is anticipated.

### **Operating Expenses**

- Legal and Regulatory requires an additional \$90K to pay for outside legal counsel expenses. This increased expense is not related to the formation of Texas RE as a separate legal entity. This is to ensure that there are sufficient funds to cover the anticipated additional registration or enforcement disputes.

### **Indirect Expenses**

- None.

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

- None.

### **Fixed Asset Additions**

- None.

## Information Technology

### Program Scope and Functional Description

Texas RE's IT employees will provide a broad range of information technology support to Texas RE, including the following: strategy; research; vendor management; planning, development, and deployment of enterprise systems and computer applications/systems in support of business needs; and support, training, and maintenance for these systems and applications.

IT staff will work with Texas RE management to develop a technological strategy to reach Texas RE's long-term goals and meet immediate system and hardware needs. In addition, IT staff will research and implement technologies for the purpose of increasing Texas RE efficiency and/or reducing workload.

In addition to its internal development efforts, IT employees will outsource a mix of services to third-party vendors. This will require a great deal of time and resources during the early part of 2010, as Texas RE competitively resources and acquires the information technology equipment and services that were performed for Original Texas RE by ERCOT ISO under the MOU. To ensure that applications and hardware are well maintained, service levels remain high, and costs are controlled, IT staff will provide vendor management and coordinate with external IT vendors on day-to-day support, administration, and future requirements.

IT staff also has the general responsibility to keep Texas RE systems up-to-date with evolving industry standards and will work with other Regional Entities and NERC to that end. IT staff will manage the design, implementation, support, and maintenance of the tools and delivery mechanisms to support the communication of information to the market, specifically the Texas RE website, Texas RE email boxes and lists, and Web-based training.

IT staff will also manage the design, implementation, support, and maintenance of Texas RE data and records-management tools to support the Standards, Registration, and CMEP programs, as well as improving registered entities' ability to participate in the processes. Specifically, such tools include the Texas RE Entity Portal and associated tools for management and tracking, the Reliability Standards tracking tool, the compliance and enforcement data management system, and the electronic document management system. IT staff will also assist with the transition of Texas RE staff's ability to receive or view necessary data in ERCOT ISO nodal systems. IT staff will also participate in the design and development of database models, web-enabled applications, data extraction and delivery methods, and data presentation.

### 2010 Key Assumptions

- Original Texas RE will continue to procure key IT equipment and services (such as computers and support, email and support, phone service and support, enterprise servers, and WebEx, but not including any services relating to the portal) from ERCOT ISO for at least several months of 2010, until these services can be performed by new employees or third-party vendors, which will occur prior to Implementation.
- Texas RE will receive no IT services from ERCOT ISO.
- Original Texas RE is in the process of competitively procuring its IT equipment (including computers, servers, telephone systems, etc.), software, and all required IT services from qualified third-parties, and it will implement a transition of the IT services from ERCOT ISO as part of the Texas RE start up costs.

- Texas RE will require two (2) additional IT employees to perform services that are currently provided by ERCOT ISO under the MOU.
- Texas RE will outsource many key IT services (email server hosting and service, desk side support services, telecommunications services, etc.) to third parties, at a cost greater than Original Texas RE paid to ERCOT ISO under the MOU.
- Texas RE will be a member of the Consortium User Group to collaborate on and share the costs of development for the portal software with other Regional Entities.

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

IT objectives for 2010 include the following:

1. Implement and monitor long-term strategy in response to business needs.
2. Continue to research, and develop, and/or purchase software and hardware to respond to immediate business needs.
3. Manage vendors to ensure quality of services and applications, responsiveness to Texas RE needs, and cost controls.
4. Provide vendor management support / IT department management support (security, disaster recovery, service management, self-assessment, lifecycle management)
5. Work effectively with other regional entities and NERC to ensure that Texas RE remains consistent.
6. Assist in ensuring information systems are functional and secure, and that applications running on those systems meet business requirements for performance, availability, and security.
7. Provide or oversee desk side support to Texas RE staff.
8. Support specialized software and applications.
9. Oversee project scheduling and priority project lists.
10. Engineer project requirements.
11. Ensure documentation (policies, procedures) creation and management for IT operations.
12. Train and support staff on software and applications.
13. Implement and oversee all Texas RE electronic systems and tools.

### **Funding Requirements — Explanation of Increase (Decrease) Over 2010 Approved Budget**

Indirect program costs are allocated to the direct programs.

Section B — 2010 Regional Entity Budget

Information Technology

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

<b>Statement of Activities</b>						
<b>2010 Approved Budget &amp; 2010 Amended Budget</b>						
<b>Information Technology - After Structural Separation</b>						
	[1]	[2]	[3]	[4]	[2]+[3]+[4]=[5]	[1]+[5]=[6]
	2010 Approved Budget	2010 Budget Start-Up Costs	2010 Budget Recurring Costs	2010 Base Budget Reductions (MOU Decreases)	2010 Adjustment to the Approved Budget	2010 Amended Budget
<b>Funding</b>						
<b>ERO Funding</b>						
ERO Assessments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Penalty Sanctions	-					
<b>Total ERO Funding</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Membership Dues	-					
Testing Fees	-					
Services & Software	-					
Workshops	-					
Interest	-					
Miscellaneous	-					
<b>Total Funding</b>	<u>\$ -</u>	<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>	<u>\$ -</u>
<b>Meeting Expenses</b>						
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	4,057					4,057
Conference Calls	-					
<b>Total Meeting Expenses</b>	<u>\$ 4,057</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,057</u>
<b>Operating Expenses</b>						
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-					
Office Costs	960					960
Professional Services	33,860		180,873		180,873	214,733
Miscellaneous	6,500					6,500
Depreciation	12,000					12,000
<b>Total Operating Expenses</b>	<u>\$ 53,320</u>	<u>\$ -</u>	<u>\$ 180,873</u>	<u>\$ -</u>	<u>\$ 180,873</u>	<u>\$ 234,193</u>
<b>Total Direct Expenses</b>	<u>\$ 57,377</u>	<u>\$ -</u>	<u>\$ 180,873</u>	<u>\$ -</u>	<u>\$ 180,873</u>	<u>\$ 238,250</u>
<b>Indirect Expenses</b>	<u>\$ (57,377)</u>	<u>\$ -</u>	<u>\$ (180,873)</u>	<u>\$ -</u>	<u>\$ (180,873)</u>	<u>\$ (238,250)</u>
<b>Other Non-Operating Expenses</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Total Expenses</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Change in Assets</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Fixed Assets</b>						
Depreciation	\$ (12,000)	\$ -	\$ -	\$ -	\$ -	\$ (12,000)
Computer & Software CapEx	32,263	634,000			634,000	666,263
Furniture & Fixtures CapEx	-					
Equipment CapEx	-					
Leasehold Improvements	-					
<b>(Incr)Dec in Fixed Assets</b>	<u>\$ (20,263)</u>	<u>\$ (634,000)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (634,000)</u>	<u>\$ (654,263)</u>
Allocation of Fixed Assets	\$ 20,263	\$ 634,000	\$ -	\$ -	\$ 634,000	\$ 654,263
<b>Change in Fixed Assets</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>TOTAL CHANGE IN ASSETS</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE: The salaries of the indirect employees in G&A, Legal, Information Technology, and Finance have been consolidated for personnel confidentiality and budgeted under G&A.

## **Explanations of Variances – Proposed 2010 Amended Budget versus 2010 Approved Budget**

### **Funding Sources**

- Indirect program costs are allocated to the direct programs.

### **Personnel Expenses**

- There are two (2) additional IT positions included in Texas RE's budget for 2010, to perform some of the services provided to Original Texas RE under the MOU with ERCOT ISO. These positions have been reflected under G&A for personnel confidentiality purposes. However, the detail for the headcount is reflected in Table 2 within Section B.

### **Meeting Expenses**

- No additional meeting and travel expense is provided for in the 2010 Amended Budget.

### **Operating Expenses**

- Professional IT services (hosting and professional services) for Microsoft Exchange and other servers, desk side support, maintenance, etc. are expected to increase \$181K over Original Texas RE's 2010 Approved Budget, due to the higher costs of obtaining these services from outside providers. These expenses which are within this indirect program are administrative services required to maintain the IT functionality for all of Texas RE's Statutory activities and should be allocated as an indirect expense.

### **Indirect Expenses**

- None.

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

- None.

### **Fixed Asset Additions**

- The IT start-up fixed asset additions include computer systems for all employees, servers, LAN, software, telephone systems (PBX), monitors, and printers. There is an expected one-time start-up cost for these items totaling \$634K, which is allocated to the direct programs.

## Human Resources

### Program Scope and Functional Description

Original Texas RE has not had a Human Resources Department, as all Human Resources services are obtained from ERCOT under the MOU. The Texas RE Human Resources department will provide a broad range of support and human resources advice to all Texas RE employees. The HR function consists of overseeing all employee benefit programs and performing or overseeing all traditional human resources activities, including recruiting, on-boarding, developing, and counseling employees, maintaining job descriptions and market salary information, maintaining personnel policies and procedures, tracking existing employee data which traditionally includes personnel histories, skills, capabilities, accomplishments and salary. The HR function also encompasses such responsibilities as maintaining the Payroll Master File, benefits administration, HR Management Information Systems oversight, Training/Learning Management System, and overseeing and managing the employee performance review process and records. This department will play a pivotal role in the structural separation process, as the benefits programs and HR tools are established, and will also coordinate all of the HR-related filings and reporting with all governmental entities.

The Human Resources function will oversee the on-boarding and off-boarding of employees in a manner that ensures company policies are appropriately followed. This department is critical to ensure that Texas RE attracts and retains top talent within the company. Texas RE intends to have one HR Manager and to outsource many of its HR and employee benefit duties to third parties, under the guidance of the HR Manager.

### 2010 Key Assumptions

- Texas RE will formally hire employees upon the Implementation.
- Texas RE will hire a dedicated HR Manager to support Texas RE's human resource needs and oversee the vendors that provide human resources and benefit plan administration services to Texas RE.
- The HR Manager will be hired by Original Texas RE in early 2010 and prior to Implementation, to oversee the selection and implementation of the third-party vendors that will provide the human resource services and benefits programs for Texas RE staff upon Implementation and to help finalize personnel policies and procedures.
- Appropriate employee benefits will be provided for all Texas RE employees, similar to the benefits that were provided by ERCOT to employees of Original Texas RE.

### Funding Requirements — Explanation of Increase (Decrease) Over 2010 Approved Budget

- Indirect program costs are allocated to the direct programs.



Section B — 2010 Regional Entity Budget

Human Resources

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

Statement of Activities						
2010 Approved Budget & 2010 Amended Budget						
Human Resources - After Structural Separation						
	[1]	[2]	[3]	[4]	[2]+[3]+[4]=[5]	[1]+[5]=[6]
	2010 Approved Budget	2010 Budget Start-Up Costs	2010 Budget Recurring Costs	2010 Base Budget Reductions (MOU Decreases)	2010 Adjustment to the Approved Budget	2010 Amended Budget
<b>Funding</b>						
<b>ERO Funding</b>						
ERO Assessments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Penalty Sanctions	-	-	-	-	-	-
<b>Total ERO Funding</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Membership Dues	-	-	-	-	-	-
Testing Fees	-	-	-	-	-	-
Services & Software	-	-	-	-	-	-
Workshops	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-
<b>Total Funding</b>	<u>\$ -</u>	<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>	<u>\$ -</u>
<b>Meeting Expenses</b>						
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	-	-	-	-	-	-
Conference Calls	-	-	-	-	-	-
<b>Total Meeting Expenses</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Operating Expenses</b>						
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-	-	-	-	-	-
Office Costs	-	-	-	-	-	-
Professional Services	-	-	121,720	-	121,720	121,720
Miscellaneous	-	-	-	-	-	-
Depreciation	-	-	-	-	-	-
<b>Total Operating Expenses</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 121,720</u>	<u>\$ -</u>	<u>\$ 121,720</u>	<u>\$ 121,720</u>
<b>Total Direct Expenses</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 121,720</u>	<u>\$ -</u>	<u>\$ 121,720</u>	<u>\$ 121,720</u>
<b>Indirect Expenses</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (121,720)</u>	<u>\$ -</u>	<u>\$ (121,720)</u>	<u>\$ (121,720)</u>
<b>Other Non-Operating Expenses</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Total Expenses</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Change in Assets</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</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>	<u>\$ -</u>
Allocation of Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Change in Fixed Assets</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>TOTAL CHANGE IN ASSETS</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE: The salaries of the indirect employees in G&A, Legal, Information Technology, and Finance have been consolidated for personnel confidentiality and budgeted under G&A.

## **Explanations of Variances – Proposed 2010 Amended Budget versus Approved 2010 Budget**

### **Funding Sources**

Indirect program costs are allocated to the direct programs.

### **Personnel Expenses**

- There is an HR Manager position that will be hired to perform this function; however that position has been reflected under G&A for personnel confidentiality purposes. The detail for the headcount is reflected in Table 2 within Section B.

### **Meeting Expenses**

- None.

### **Operating Expenses**

- The increased cost for benefits administration and employee recruitment will be \$71K and \$51K, respectively. The Human Resources program code is new for Texas RE, because benefits administration was provided for Original Texas RE under the MOU (for a lower cost) and was reflected in the 2010 Approved Budget under the General and Administrative Statement of Activities. These increased benefits administration and recruitment costs are net of the amounts paid by Original Texas RE to ERCOT under the MOU, which are included in the amounts reflected under column 4 of the General and Administrative Statement of Activities. Texas RE will use the Human Resource program code in future budgets.

### **Indirect Expenses**

- None.

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

- None.

### **Fixed Asset Additions**

- None.

## **Finance and Accounting**

### **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 the Texas RE budget for controlling funds to implement the Texas RE's objectives and will also review and evaluate the performance of key processes for maintaining tight financial controls in a cost-effective and efficient manner. Finance and Accounting staff will guide the annual budget process for the Texas RE and measure performance of all key aspects of the Texas RE to ensure performance matches or exceeds expectations, including the analysis of trends affecting budget needs and developing periodic financial reports. 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 appropriately. This will involve generating monthly financial reports that will be communicated to the CEO, the department managers and the board.

After Implementation, 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.

### **2010 Key Assumptions**

- Texas RE will be required to hire an additional employee to manage this function prior to Implementation, to transition the services that were previously provided to Texas RE through the MOU with ERCOT ISO.

### **2010 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.

## Section B — 2010 Regional Entity Budget

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3. Continue to facilitate the Financial Reporting for the Board.
4. Ensure that Texas RE receives an unqualified opinion on the audit of the financial statements.
5. Continue to support and coordinate with NERC finance staff to meet quarterly and annual reporting requirements.
6. Review workflow and adjust as required to better enable Texas RE staff operational success.

### **Funding Requirements — Explanation of Increase (Decrease) Over 2010 Approved Budget**

Indirect program costs are allocated to the direct programs.

Section B — 2010 Regional Entity Budget

Finance and Accounting

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

<b>Statement of Activities</b>						
<b>2010 Approved Budget &amp; 2010 Amended Budget</b>						
<b>Finance and Accounting - After Structural Separation</b>						
	[1]	[2]	[3]	[4]	[2]+[3]+[4]=[5]	[1]+[5]=[6]
	2010 Approved Budget	2010 Budget Start-Up Costs	2010 Budget Recurring Costs	2010 Base Budget Reductions (MOU Decreases)	2010 Adjustment to the Approved Budget	2010 Amended Budget
<b>Funding</b>						
<b>ERO Funding</b>						
ERO Assessments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Penalty Sanctions	-					
<b>Total ERO Funding</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Membership Dues	-					
Testing Fees	-					
Services & Software	-					
Workshops	-					
Interest	-					
Miscellaneous	-					
<b>Total Funding</b>	<u>\$ -</u>	<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>	<u>\$ -</u>
<b>Meeting Expenses</b>						
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	2,145					2,145
Conference Calls	-					
<b>Total Meeting Expenses</b>	<u>\$ 2,145</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,145</u>
<b>Operating Expenses</b>						
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-					
Office Costs	880					880
Professional Services	45,281	16,500	189,190	(33,961)	171,729	217,010
Miscellaneous	4,095		8,606		8,606	12,701
Depreciation	-					
<b>Total Operating Expenses</b>	<u>\$ 50,256</u>	<u>\$ 16,500</u>	<u>\$ 197,796</u>	<u>\$ (33,961)</u>	<u>\$ 180,335</u>	<u>\$ 230,591</u>
<b>Total Direct Expenses</b>	<u>\$ 52,401</u>	<u>\$ 16,500</u>	<u>\$ 197,796</u>	<u>\$ (33,961)</u>	<u>\$ 180,335</u>	<u>\$ 232,736</u>
<b>Indirect Expenses</b>	<u>\$ (52,401)</u>	<u>\$ (16,500)</u>	<u>\$ (197,796)</u>	<u>\$ 33,961</u>	<u>\$ (180,335)</u>	<u>\$ (232,736)</u>
<b>Other Non-Operating Expenses</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Total Expenses</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Change in Assets</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</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>\$ -</u>	<u>\$ (41,000)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (41,000)</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>	<u>\$ -</u>
<b>TOTAL CHANGE IN ASSETS</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE: The salaries of the indirect employees in G&A, Legal, Information Technology, and Finance have been consolidated for personnel confidentiality and budgeted under G&A.

## Explanations of Variances –2010 Amended Budget versus Approved 2010 Budget

### Funding Sources

Indirect program costs are allocated to the direct programs.

### Personnel Expenses

- Texas RE is hiring one (1) Finance and Accounting Manager which is reflected under G&A for personnel confidentiality purposes. However, the detail for the employee is reflected in Table 2 within Section B.
- The new employee will need to be hired in early 2010 and prior to the approval by FERC of the Delegation Agreement, so that this employee can provide assistance in procuring the needed financial tools and preparing for the transition of the finance and accounting services from ERCOT ISO (under the MOU) to be performed by Texas RE.

### Meeting Expenses

- None.

### Operating Expenses

- Professional services will need to be procured to supplement the Finance and Accounting function, including: electronic expense reporting of \$21K, timekeeping and processing payroll of \$26K, outsourced internal audit function of \$43K, and increased insurance coverage costs of \$82K. Insurance coverage was previously included in the Original Texas RE's MOU with ERCOT ISO, and so this is a new expense in this category for 2010.
- Additionally, the treasury function set-up and maintenance fees are budgeted in miscellaneous expenses and this is expected to be approximately \$9K for 2010.

### Indirect Expenses

- None.

### Other Non-Operating Expenses

- None.

### Fixed Asset Additions

- Texas RE will need to deploy an accounting system and will need to procure the software as well as implement the software. The cost for this is approximately \$41K and is a start-up cost in year one.

## Section B — 2010 Budget

### 2009 Budget and Projection and 2010 Budget Comparisons

Table 1

Statement of Activities						
2010 Approved Budget & 2010 Amended Budget						
STATUTORY + STRUCTURAL SEPARATION BUDGET						
	[1]	[2]	[3]	[4]	[2]+[3]+[4]=[5]	[1]+[5]=[6]
	2010	2010	2010	2010	2010	2010
	Approved	Budget	Budget	Base Budget	Adjustment	Base + Adjustment
	Budget	Start-Up	Recurring	Reductions	to the Approved	to the
		Costs	Costs		Budget	Approved Budget
<b>Funding</b>						
<b>ERO Funding</b>						
ERO Assessments	\$ 6,660,377	\$ 1,308,500	\$ 2,124,004	\$ (948,540)	\$ 2,483,964	\$ 9,144,340
Penalty Sanctions <sup>(1)</sup>	-	-	-	-	-	-
<b>Total ERO Funding</b>	<b>\$ 6,660,377</b>	<b>\$ 1,308,500</b>	<b>\$ 2,124,004</b>	<b>\$ (948,540)</b>	<b>\$ 2,483,964</b>	<b>\$ 9,144,340</b>
Membership Dues	-	-	27,000	-	27,000	27,000
Testing Fees	-	-	-	-	-	-
Services & Software	-	-	-	-	-	-
Workshops	180,000	-	-	-	-	180,000
Interest	2,000	-	-	-	-	2,000
Miscellaneous	-	-	-	-	-	-
<b>Total Funding</b>	<b>\$ 6,842,377</b>	<b>\$ 1,308,500</b>	<b>\$ 2,151,004</b>	<b>\$ (948,540)</b>	<b>\$ 2,510,964</b>	<b>\$ 9,353,340</b>
<b>Expenses</b>						
<b>Personnel Expenses</b>						
Salaries	\$ 3,351,291	\$ -	\$ 490,490	\$ -	\$ 490,490	\$ 3,841,781
Payroll Taxes	265,543	-	37,438	-	37,438	302,981
Benefits	360,813	-	47,960	-	47,960	408,773
Retirement Costs	480,075	-	70,594	-	70,594	550,669
<b>Total Personnel Expenses</b>	<b>\$ 4,457,721</b>	<b>\$ -</b>	<b>\$ 646,482</b>	<b>\$ -</b>	<b>\$ 646,482</b>	<b>\$ 5,104,203</b>
<b>Meeting Expenses</b>						
Meetings	\$ 228,000	\$ -	\$ -	\$ -	\$ -	\$ 228,000
Travel	194,392	-	-	-	-	194,392
Conference Calls	-	-	-	-	-	-
<b>Total Meeting Expenses</b>	<b>\$ 422,392</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 422,392</b>
<b>Operating Expenses</b>						
Consultants & Contracts	\$ 676,331	\$ 200,000	\$ 287,675	\$ (559,523)	\$ (71,848)	\$ 604,483
Office Rent	327,600	-	229,725	(193,425)	36,300	363,900
Office Costs	44,022	-	4,590	-	4,590	48,612
Professional Services	634,625	16,500	597,083	(33,961)	579,622	1,214,246
Miscellaneous	36,236	-	8,606	-	8,606	44,843
Depreciation	153,107	-	146,550	-	146,550	299,657
<b>Total Operating Expenses</b>	<b>\$ 1,871,921</b>	<b>\$ 216,500</b>	<b>\$ 1,274,229</b>	<b>\$ (786,909)</b>	<b>\$ 703,820</b>	<b>\$ 2,575,740</b>
<b>Total Direct Expenses</b>	<b>\$ 6,752,034</b>	<b>\$ 216,500</b>	<b>\$ 1,920,711</b>	<b>\$ (786,909)</b>	<b>\$ 1,350,302</b>	<b>\$ 8,102,336</b>
<b>Indirect Expenses</b>	<b>\$ -</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>\$ -</b>
<b>Total Expenses</b>	<b>\$ 6,752,034</b>	<b>\$ 216,500</b>	<b>\$ 1,920,711</b>	<b>\$ (786,909)</b>	<b>\$ 1,350,302</b>	<b>\$ 8,102,336</b>
<b>Change in Assets</b>	<b>\$ 90,343</b>	<b>\$ 1,092,000</b>	<b>\$ 230,293</b>	<b>\$ (161,631)</b>	<b>\$ 1,160,662</b>	<b>\$ 1,251,005</b>
<b>Fixed Assets</b>						
Depreciation	\$ (153,107)	\$ -	\$ (146,550)	\$ -	\$ (146,550)	\$ (299,657)
Computer & Software CapEx	306,500	775,000	-	-	775,000	1,081,500
Furniture & Fixtures CapEx	15,215	317,000	-	-	317,000	332,215
Equipment CapEx	-	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-	-
<b>Change in Fixed Assets</b>	<b>\$ (168,608)</b>	<b>\$ (1,092,000)</b>	<b>\$ 146,550</b>	<b>\$ -</b>	<b>\$ (945,450)</b>	<b>\$ (1,114,058)</b>
Allocation of Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Change in Fixed Assets</b>	<b>\$ (168,608)</b>	<b>\$ (1,092,000)</b>	<b>\$ 146,550</b>	<b>\$ -</b>	<b>\$ (945,450)</b>	<b>\$ (1,114,058)</b>
<b>TOTAL CHANGE IN ASSETS</b>	<b>\$ (78,265)</b>	<b>\$ -</b>	<b>\$ 376,843</b>	<b>\$ (161,631)</b>	<b>\$ 215,212</b>	<b>\$ 136,947</b>

<sup>(1)</sup> Reflects penalty sanctions collected prior to June 30, 2009.

## Personnel Analysis

2010 Texas Reliability Entity Business Plan and Budget

Approved by Board of Directors: January 18, 2010

**Section B — 2010 Regional Entity Budget**

FTEs are defined as full-time equivalent units. Fractional FTEs reflect time tracking and expected results of time-tracking.

**Table 2**

Total FTE's by Program Area	Approved 2010	Direct FTEs 2010 Budget	Shared FTEs <sup>1</sup> 2010 Budget	Total FTEs 2010 Budget	Change From Approved 2010 Budget
<b>STATUTORY</b>					
<b>Operational Programs</b>					
Reliability Standards	2.06	0.00	2.06	2.06	0.00
Compliance and Organization Registration and Certification	21.74	0.00	21.74	21.74	0.00
Training and Education	0.97	0.00	0.97	0.97	0.00
Reliability Assessment and Performance Analysis	2.44	0.00	2.44	2.44	0.00
Situational Awareness and Infrastructure Security	3.03	0.00	3.03	3.03	0.00
<b>Total FTEs Operational Programs</b>	<b>30.24</b>	<b>0.00</b>	<b>30.24</b>	<b>30.24</b>	<b>0.00</b>
<b>Administrative Programs</b>					
Member Forums	0.00	0.00	0.00	0.00	0.00
General & Administrative	1.05	0.00	1.05	1.05	0.00
Information Technology	0.69	0.00	2.49	2.49	1.80
Legal and Regulatory	1.17	0.00	3.17	3.17	2.00
Human Resources	0.00	0.00	0.85	0.85	0.85
Accounting	0.85	0.00	1.70	1.70	0.85
<b>Total FTEs Administrative Programs</b>	<b>3.76</b>	<b>0.00</b>	<b>9.26</b>	<b>9.26</b>	<b>5.50</b>
<b>Total FTEs</b>	<b>34.00</b>	<b>0.00</b>	<b>39.50</b>	<b>39.50</b>	<b>5.50</b>

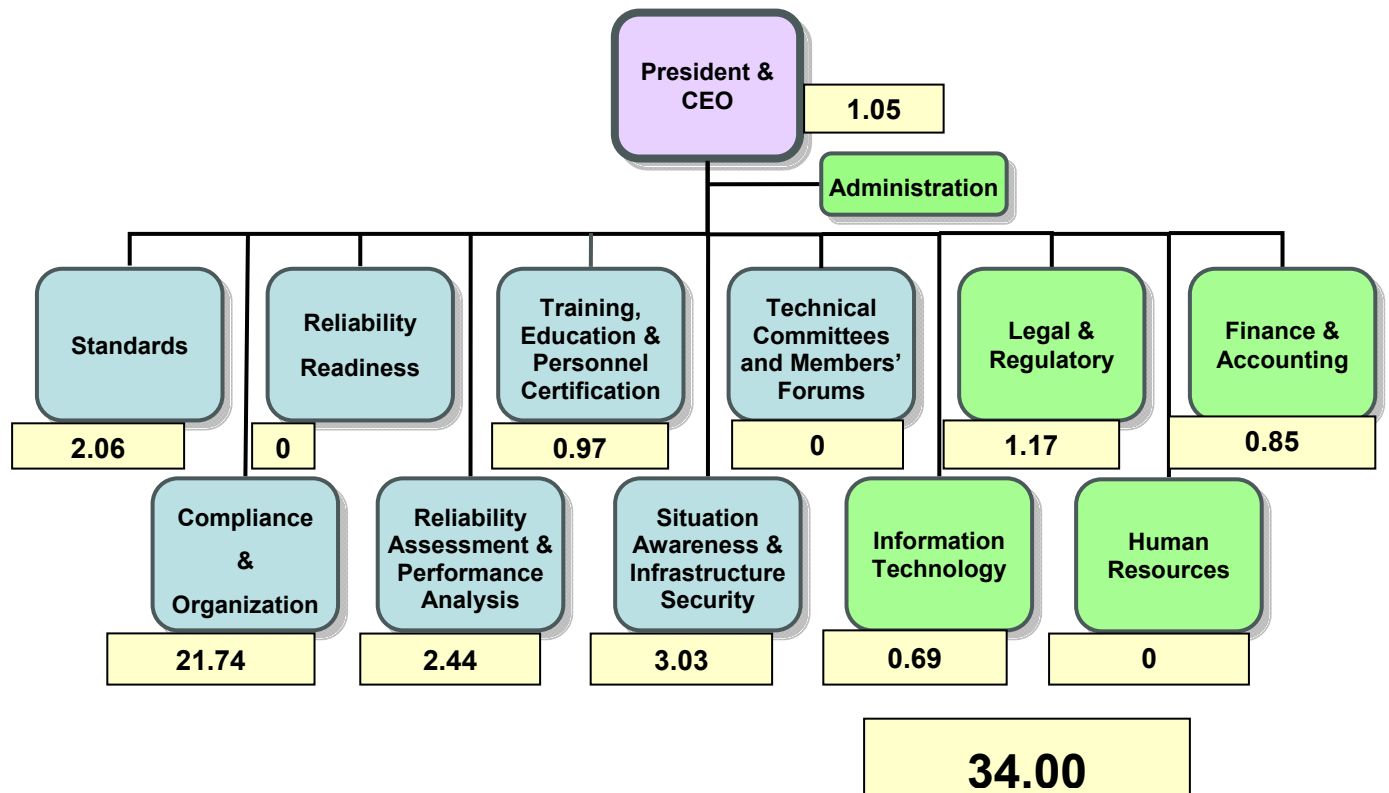
<sup>1</sup>A shared FTE is defined as only Texas Regional Entity employees who performs both Statutory and Non-statutory activities; however not for a registered function (e.g. Reliability Coordinator).

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



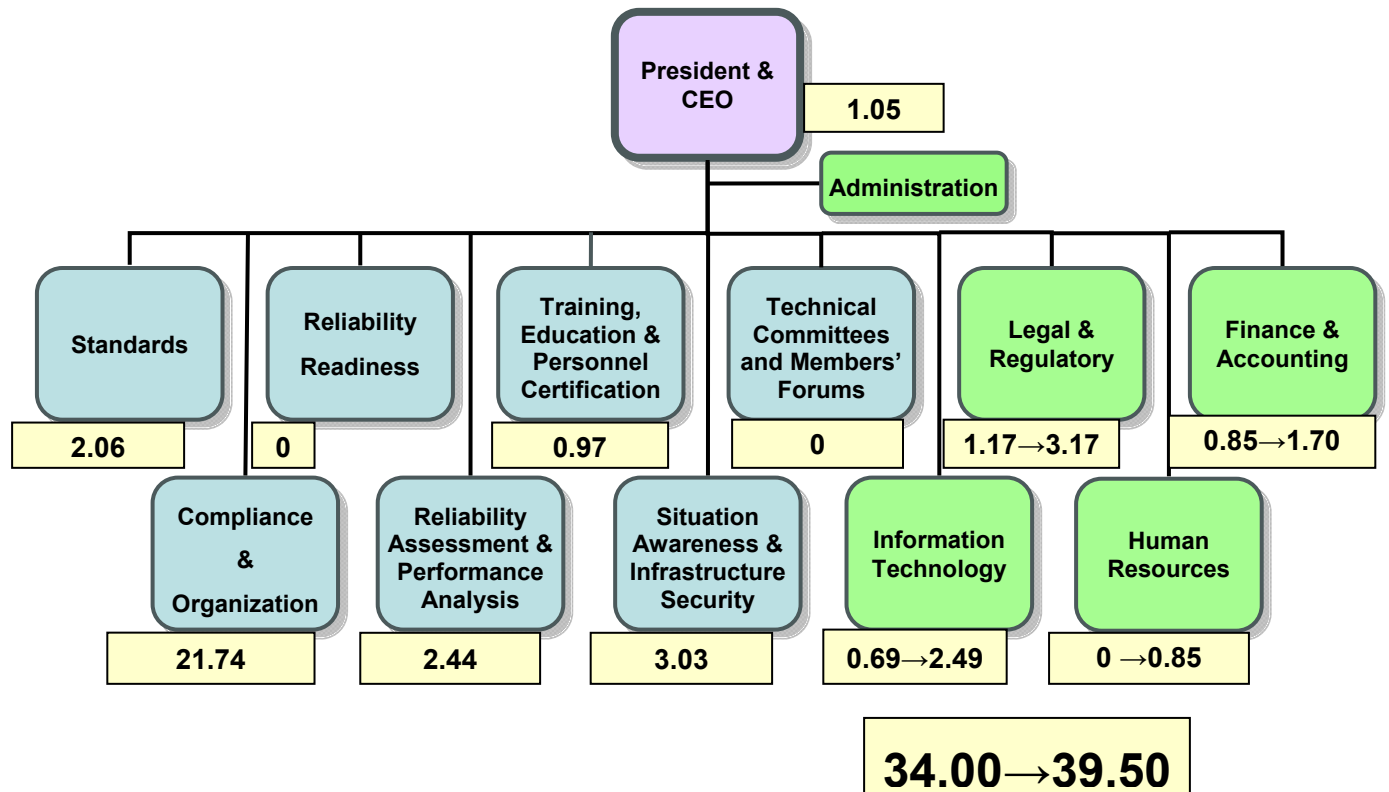
2010 Organizational Chart (Statutory) – Approved 2010 Budget

Table 3



2010 Organizational Chart (Statutory) – Proposed 2010 Budget versus Approved 2010 Budget

Table 4



Reserve Balance

Table 5

<b>Working Capital Reserve Analysis 2010</b>	
<b>STATUTORY</b>	
<b>Beginning Working Capital Reserve (Deficit), December 31, 2008</b>	2,666,325
Penalty sanctions being held to be used as offset to 2010 assessments <sup>1</sup>	0
Plus: 2009 ERO Funding (from LSEs or designees)	3,430,700
Plus: 2009 Other funding sources	178,154
Less: 2009 Regulatory Liability Projected	(165,266)
Less: 2009 Projected expenses & capital expenditures	(5,254,914)
<b>Projected Working Capital Reserve (Deficit), December 31, 2009</b>	<b>855,000</b>
<b>Desired Working Capital Reserve, December 31, 2010</b>	<sup>2</sup> 1,585,929
Less: Projected Working Capital Reserve, December 31, 2009	(855,000)
Less: LT Regulatory Liability Release	(593,983)
<b>Increase(decrease) in assessments to achieve desired Working Capital Reserve</b>	<b>136,947</b>
2010 Assessment for Expenses and Capital Expenditures	9,216,394
Net Reduction in Working Capital	
Less: Penalty Sanctions <sup>1</sup>	0
Less: Other Funding Sources <sup>2</sup>	(209,000)
Adjustment to achieve desired Working Capital Reserve	136,947
<b>2010 Assessment</b>	<b>9,144,340</b>

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

<sup>2</sup> Represents an approximately 75-day cash reserve.

## Regional Entity Assessment Analysis

### Assessments by Country

Table 6

Data Year	Regional Entity	Total NEL	U.S. NEL	Canada NEL	Mexico NEL	% of RE Total	US Total	Canada Total	Mexico Total
Summary by Regional Entity									
2008	FRCC	-							
2008	MRO	-							
2008	NPCC	-							
2008	RFC	-							
2008	SERC	-							
2008	SPP	-							
2008	TRE	310,856,852	310,856,852			100.0%	100.0%		
2008	WECC	-							
	<b>TOTAL</b>	<b>310,856,852</b>	<b>310,856,852</b>	<b>-</b>	<b>-</b>	<b>100.0%</b>	<b>100.0%</b>	<b>0%</b>	<b>0%</b>

## Breakdown by Statement of Activity Sections

Full disclosures of all penalties received prior to July 1, 2009 are detailed below, including the Company, the amount, and the date received.

Allocation Method: Penalty sanctions received have been allocated to the following Statutory programs to reduce assessments: Reliability Standards; Compliance Monitoring & Enforcement and Organization Registration & Certification; Reliability Assessments and Performance Analysis; Training, Education and Operator Certification; and Situational Awareness and Infrastructure Security. Penalty sanctions are allocated based upon the number of FTEs in the Program divided by the aggregate total FTEs in the Programs receiving the allocation.

**Table B-1**

Penalty Sanctions Received Prior to June 30, 2009	Date Receive	Amount Received
Name of Entity	NOT APPLICABLE	
<b>Total Penalties Received</b>		\$ <u><u>-</u></u>

Supplemental Funding

Table B-2

Outside Funding Breakdown By Program (excluding ERO Assessments & Penalty Sanctions)	2010 Approved Budget	2010 Proposed Budget	Variance 2010 Approved Budget v 2010 Proposed Budget	Variance %
<b>Training and Education</b>				
Operations Training Seminar	\$ 180,000	\$ 180,000	\$ -	0.00%
<b>Total</b>	<b>\$ 180,000</b>	<b>\$ 180,000</b>	<b>\$ -</b>	<b>0.00%</b>
<b>General and Administrative</b>				
Membership Fees	\$ -	\$ 27,000	\$ 27,000	100.00%
Interest Income	2,000	2,000	-	0.00%
<b>Total</b>	<b>\$ 2,000</b>	<b>\$ 29,000</b>	<b>\$ 27,000</b>	<b>1350.00%</b>
<b>Total Outside Funding</b>	<b>\$ 182,000</b>	<b>\$ 209,000</b>	<b>\$ 27,000</b>	<b>14.84%</b>

**Explanation of Significant Variances – 2010 Proposed Amended Budget versus 2010 Approved Budget**

- Texas RE members will pay nominal annual membership fee. Original Texas RE did not receive any portion of the ERCOT ISO membership fees.

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**Personnel Expenses**
**Table B-3**

<b>Personnel Expenses</b>	<b>2010 Approved Budget</b>	<b>2010 Proposed Budget</b>	<b>Variance 2010 Approved Budget v 2010 Proposed Budget</b>	<b>Variance %</b>
<b>Salaries</b>				
Salary	\$ 3,351,291	\$ 3,841,781	\$ 490,490	14.6%
<b>Total Salaries</b>	<b>\$ 3,351,291</b>	<b>\$ 3,841,781</b>	<b>\$ 490,490</b>	<b>14.6%</b>
<b>Total Payroll Taxes</b>	<b>\$ 265,543</b>	<b>\$ 302,981</b>	<b>\$ 37,438</b>	<b>14.1%</b>
<b>Benefits</b>				
Life, Health, Vision, etc.	\$ 360,813	\$ 408,773	\$ 47,960	13.3%
<b>Total Benefits</b>	<b>\$ 360,813</b>	<b>\$ 408,773</b>	<b>\$ 47,960</b>	<b>13.3%</b>
<b>Retirement</b>				
401(k) Contr. & Employee Matching	\$ 480,075	\$ 550,669	\$ 70,594	14.7%
<b>Total Retirement</b>	<b>\$ 480,075</b>	<b>\$ 550,669</b>	<b>\$ 70,594</b>	<b>14.7%</b>
<b>Total Personnel Costs</b>	<b>\$ 4,457,721</b>	<b>\$ 5,104,203</b>	<b>\$ 646,482</b>	<b>14.5%</b>
<b>FTEs</b>	<b>34.00</b>	<b>39.50</b>	<b>5.50</b>	<b>16.2%</b>
<b>Cost per FTE</b>				
Salaries	\$ 98,561	\$ 97,255	(1,306)	-1.3%
Payroll Taxes	7,810	7,670	(140)	-1.8%
Benefits	10,611	10,348	(263)	-2.5%
Retirement	14,119	13,940	(179)	-1.3%
<b>Total Cost per FTE</b>	<b>\$ 131,101</b>	<b>\$ 129,213</b>	<b>\$ (1,888)</b>	<b>-1.4%</b>

**Explanation of Significant Variances – 2010 Proposed Amended Budget versus 2010 Approved Budget**

- The reason for the 1.4% decrease is that the average salary of the existing professional staff is higher than the additional corporate support staff being hired to perform the administrative services that were performed for Original Texas RE under its MOU with ERCOT ISO.

**Consultants and Contracts**

**Table B-4**

Consultants	2010 Approved Budget	2010 Proposed Budget	Variance 2010 Approved Budget v 2010 Proposed Budget	Variance %
<b>Consultants</b>				
Recruitment	\$ -	\$ -	\$ -	
<b>Consultants Total</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	

Contracts	Budget 2010	2010 Proposed Budget	Variance 2010 Approved Budget v 2010 Proposed Budget	Variance %
<b>Contracts</b>				
Corporate Support Allocation (MOU)	\$ 388,205	\$ 44,777	\$ (343,428)	-88.47%
Board Related Search & Support Fees	-	487,675	487,675	100.00%
IT Administration (MOU)	288,126	72,032	(216,095)	-75.00%
<b>Contracts Total</b>	<b>\$ 676,331</b>	<b>\$ 604,483</b>	<b>\$ (71,848)</b>	<b>-10.62%</b>
<b>Total Consulting and Contracts</b>	<b>\$ 676,331</b>	<b>\$ 604,483</b>	<b>\$ (71,848)</b>	<b>-10.62%</b>

**Explanation of Significant Variances – 2010 Proposed Amended Budget versus 2010 Approved Budget**

- Board related costs are increasing due to the recruitment expenses included for start-up including four independent directors, as well as having overlapping board fees (Original Texas RE and Texas RE) during a portion of year one. The board related increase is offset by reductions in HR support, Finance support, Insurance coverage, and IT administration provided under the MOU. The net reduction is \$72K



Table B-5

Office Rent	2010 Approved Budget	2010 Proposed Budget	Variance 2010 Approved Budget v 2010 Proposed Budget	Variance %
Office Rent & Facilities	\$ 327,600	\$ 261,900	(65,700)	-20.05%
2010 Office Move and Improvements	-	50,000	50,000	100.00%
2010 Office Move Project Management Expense	-	25,000	25,000	100.00%
MRC, Standards, and Board Meeting Room	-	27,000	27,000	100.00%
<b>Total Office Rent</b>	<b>\$ 327,600</b>	<b>\$ 363,900</b>	<b>\$ 36,300</b>	<b>11.08%</b>

### Explanation of Significant Variances – 2010 Proposed Amended Budget versus 2010 Approved Budget

- Texas RE expects that Office Rent & Facilities support will be more than the approved budget amount after Texas RE structurally separates, due to the need for Texas RE to acquire additional space and the expiration of the lease at the end of 2010.

Table B-6

Office Costs	2010 Approved Budget	2010 Proposed Budget	Variance 2010 Approved Budget v 2010 Proposed Budget	Variance %
Office Supplies	\$ 16,002	\$ 16,766	\$ 764	4.77%
Cellular Phones	14,040	14,040	-	0.00%
Postage	1,800	3,713	1,913	106.28%
Express Shipping	7,980	7,980	-	0.00%
Stationary Forms	3,000	4,913	1,913	63.77%
Reports - Graphics	1,200	1,200	-	0.00%
<b>Total Office Costs</b>	<b>\$ 44,022</b>	<b>\$ 48,612</b>	<b>\$ 4,590</b>	<b>10.43%</b>

### Explanation of Significant Variances – 2010 Proposed Amended Budget versus 2010 Approved Budget

- Texas RE is increasing the amount for office supplies to reflect the additional employees \$1K.
- Additionally, postage costs are estimated to be higher due to additional mailings required related to tax filings, corporate governance, and employee communications. The estimated increase is expected to be approximately \$2K.
- Finally, employee forms needed for HR purposes, financial documents, and check stock will result in approximately a \$2K increase in office costs for Texas RE.

Table B-7

Professional Services	2010 Approved Budget	2010 Proposed Budget	Variance 2010 Approved Budget v 2010 Proposed Budget	Variance %
Outside Legal	\$ 300,000	\$ 390,000	\$ 90,000	30.00%
Accounting & Auditing Fees	45,281	87,820	42,539	93.95%
Accounting Services Fees	-	46,582	46,582	100.00%
Insurance / Risk Management	-	82,608	82,608	100.00%
IT Professional Services	207,344	388,217	180,873	87.23%
RSVP Hosting	10,000	10,000	-	0.00%
Recruitment	12,000	63,000	51,000	425.00%
Other Professional Services	60,000	60,000	-	0.00%
Benefits Administration	-	70,720	70,720	100.00%
Security	-	15,300	15,300	100.00%
<b>Total Services</b>	<b>\$ 634,625</b>	<b>\$ 1,214,246</b>	<b>\$ 579,621</b>	<b>115.62%</b>

#### Explanation of Significant Variances – 2010 Proposed Amended Budget versus 2010 Approved Budget

- Outside legal expenses are expected to increase \$90K over the approved 2010 budget due to the need to utilize outside counsel in connection with the projected increased number of enforcement or registration disputes. This increased cost is not due to the formation of Texas RE as a separate entity.
- Audit fees are increasing in 2010 by \$43K related to establishing an internal audit function for which an external service provider will be used. Additionally, accounting services expenses for timekeeping, expense reporting, payroll processing are expected to increase by \$47K, because the costs for these are higher than when provided to Original Texas RE through the MOU with ERCOT ISO.
- Insurance/Risk Management is slated to increase approximately \$83K because the costs are higher than when provided to Original Texas RE through the MOU with ERCOT ISO.
- IT professional services are increasing \$181K because these costs are higher than when provided to Original Texas RE through the MOU with ERCOT ISO.
- Texas RE recruitment expenses are expected to increase \$51K in professional services. Recruitment expense was previously included in the Original Texas RE's MOU costs under Consultants and Contracts which reflects a decrease in expense.
- Benefits Administration will increase \$71K, because the cost of similar benefits is higher than when provided to Original Texas RE through the MOU with ERCOT ISO. This is as a result of the structural separation of Texas RE from ERCOT ISO.
- Security is being estimated to increase to \$15K, because this cost is higher than when provided to Original Texas RE through the MOU with ERCOT ISO.

**Table B-8**

Other Non-Operating Expenses	2010 Approved Budget	2010 Proposed Budget	Variance 2010 Approved Budget v 2010 Proposed Budget	Variance %
Cash Reserve	\$ -	\$ -	\$ -	-
<b>Total Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>-</b>

**Explanation of Significant Variances – 2010 Proposed Amended Budget versus 2010 Approved Budget**

- N/A

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

(in whole dollars)			
(Decrease)	2010 Approved Budget	2010 Amended Budget	Increase
Total FTEs	6.00	6.50	0.50
Total Direct Expenses	\$1,086,772	\$1,112,132	\$25,360
Total Indirect Expenses			
Total Expenses	\$1,086,772	\$1,112,132	\$25,360

### Non-statutory Functional Scope

In addition to the Statutory functions, Texas RE will provide compliance support to the Public Utility Commission of Texas (PUCT) through December 31, 2010. These services include auditing, event analysis, complaint investigations and monthly metric monitoring to identify violations of protocols. In addition, Texas RE also monitors the stakeholder market rules creation and modification process and comments on proposed changes to the protocols that affect reliability. Texas RE also works closely with the PUCT to identify new risks to the BPS and craft strategies to address these risks from the regulatory perspective.

Texas RE does not perform any enforcement activities for the PUCT. Once a potential violation is identified by Texas RE it is reported to the PUCT, which follows up with all enforcement activities. Texas RE may be required to assist the PUCT with analysis of our findings and will support the PUCT in the enforcement processes, if needed; however, all enforcement is at the sole discretion of the PUCT.

Original Texas RE added one-half of an FTE (0.5 FTEs) in its 2010 Approved Budget to support the Non-statutory corporate support work in 2010. Texas RE estimates approximately (14%) percent of Texas RE staff time will be dedicated to monitoring, auditing, assessing, investigating, and reporting on compliance with the ERCOT Protocols and commenting on ERCOT Protocol revision requests. Funding for these Non-statutory activities is provided through the ERCOT System Administration Fee, which is based upon the fee factor approved by the ERCOT Board and the PUCT to support ERCOT activities and Texas RE Non-statutory activities which are subject to PUCT oversight.

Texas RE generated its budget to include the Non-statutory related work of the PUCT in its 2010 Amended Budget. However, the Non-statutory work performed by Texas RE may potentially transition to another entity selected by the PUCT effective December 31, 2010.

## **Major 2010 Cost Impacts – Proposed 2010 Amended Budget versus Approved 2010 Budget**

### **Funding Sources**

- Funding will be received through a contract with the PUCT or a three-way contract with the PUCT and ERCOT ISO.

### **Personnel Expenses**

- Non-statutory Personnel Expenses are increasing primarily due to adding .50 FTEs of labor to the Non-statutory function for structural separation. This results in a \$70K increase to expenses (which is offset by the \$45K reduction in operating expenses), resulting in a change of a \$25K increase.

### **Operating Expenses**

- Support service expenses incurred for consulting, and other professional services related to Texas RE's new corporate structure will require \$45K less expense, due to the elimination of the MOU expenses paid to ERCOT and a reduction to outside legal expenses.

## **2010 Primary Goals and Objectives —**

1. Implement the 2010 protocol audit plan per the posted schedule and with a high level of quality and consistency.
2. Maintain high quality and effective organization of all audit and investigation work papers, audit reports and potential violation findings.
3. Review and assess system disturbances for potential violations of the ERCOT Protocols and report all findings to the PUCT.
4. Meet with the PUCT monthly to provide a complete report on work in progress as well as all audit reports and potential violation files.
5. Support the PUCT efforts to ensure adequate regulatory oversight in place for the Nodal Market.
6. Create and provide Nodal training for Texas RE staff and the PUCT.
7. Provide a workshop to educate stakeholders on compliance issues related to the Nodal Market transition and implementation. Continue to monitor and participate in the ERCOT ISO committee process.

## 2010 Approved Budget and 2010 Proposed Amended Budget Comparisons

Table 1

<b>Statement of Activities</b>						
<b>2010 Approved Budget &amp; 2010 Amended Budget</b>						
<b>NON-STATUTORY + STRUCTURAL SEPARATION BUDGET</b>						
	[1]	[2]	[3]	[4]	[2]+[3]+[4]=[5]	[1]+[5]=[6]
	2010 Approved Budget	2010 Budget Start-Up Costs	2010 Budget Recurring Costs	2010 Base Budget Reductions	2010 Adjustment to the Approved Budget	2010 Base + Adjustment to the Approved Budget
<b>Funding</b>						
<b>ERO Funding</b>						
ERO Assessments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Penalty Sanctions <sup>(1)</sup>	-	-	-	-	-	-
<b>Total ERO Funding</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Membership Dues	-	-	-	-	-	-
Testing Fees	-	-	-	-	-	-
Services & Software	1,153,772	-	195,064	(164,956)	30,108	1,183,879
Workshops	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-
<b>Total Funding</b>	<u>\$ 1,153,772</u>	<u>\$ -</u>	<u>\$ 195,064</u>	<u>\$ (164,956)</u>	<u>\$ 30,108</u>	<u>\$ 1,183,879</u>
<b>Expenses</b>						
<b>Personnel Expenses</b>						
Salaries	\$ 608,104	\$ -	\$ 48,510	\$ -	\$ 48,510	\$ 656,614
Payroll Taxes	48,059	-	5,123	-	5,123	53,181
Benefits	66,079	-	7,044	-	7,044	73,123
Retirement Costs	86,102	-	9,178	-	9,178	95,280
<b>Total Personnel Expenses</b>	<u>\$ 808,345</u>	<u>\$ -</u>	<u>\$ 69,854</u>	<u>\$ -</u>	<u>\$ 69,854</u>	<u>\$ 878,199</u>
<b>Meeting Expenses</b>						
Meetings	\$ 5,600	\$ -	\$ -	\$ -	\$ -	\$ 5,600
Travel	624	-	-	-	-	624
Conference Calls	-	-	-	-	-	-
<b>Total Meeting Expenses</b>	<u>\$ 6,224</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,224</u>
<b>Operating Expenses</b>						
Consultants & Contracts	\$ 120,064	\$ -	\$ 21,677	\$ (99,273)	\$ (77,596)	\$ 42,467
Office Rent	62,400	-	40,540	(37,575)	2,965	65,365
Office Costs	-	-	810	-	810	810
Professional Services	57,875	-	27,809	-	27,809	85,684
Miscellaneous	1,865	-	1,519	-	1,519	3,383
Depreciation	30,000	-	-	-	-	30,000
<b>Total Operating Expenses</b>	<u>\$ 272,203</u>	<u>\$ -</u>	<u>\$ 92,354</u>	<u>\$ (136,848)</u>	<u>\$ (44,494)</u>	<u>\$ 227,709</u>
<b>Total Direct Expenses</b>	<u>\$ 1,086,772</u>	<u>\$ -</u>	<u>\$ 162,208</u>	<u>\$ (136,848)</u>	<u>\$ 25,360</u>	<u>\$ 1,112,132</u>
<b>Indirect Expenses</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Other Non-Operating Expenses</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Total Expenses</b>	<u>\$ 1,086,772</u>	<u>\$ -</u>	<u>\$ 162,208</u>	<u>\$ (136,848)</u>	<u>\$ 25,360</u>	<u>\$ 1,112,132</u>
<b>Change in Assets</b>	<u>\$ 67,000</u>	<u>\$ -</u>	<u>\$ 32,856</u>	<u>\$ (28,109)</u>	<u>\$ 4,748</u>	<u>\$ 71,748</u>
<b>Fixed Assets</b>						
Depreciation	\$ (30,000)	\$ -	\$ -	\$ -	\$ -	\$ (30,000)
Computer & Software CapEx	67,000	-	-	-	-	67,000
Furniture & Fixtures CapEx	-	-	-	-	-	-
Equipment CapEx	-	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-	-
<b>Change in Fixed Assets</b>	<u>\$ (37,000)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (37,000)</u>
Allocation of Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Change in Fixed Assets</b>	<u>\$ (37,000)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (37,000)</u>
<b>TOTAL CHANGE IN ASSETS</b>	<u>\$ 30,000</u>	<u>\$ -</u>	<u>\$ 32,856</u>	<u>\$ (28,109)</u>	<u>\$ 4,748</u>	<u>\$ 34,748</u>

<sup>(1)</sup> Reflects penalty sanctions collected prior to June 30, 2009.

## Personnel Analysis

FTEs are defined as full-time equivalent units. Fractional FTEs reflect time tracking and expected results of time-tracking.

**Table 2**

Total FTE's by Program Area	Approved 2010	Direct FTEs 2010 Budget	Shared FTEs <sup>1</sup> 2010 Budget	Total FTEs 2010 Budget	Change From Approved 2010 Budget
<b>NON-STATUTORY</b>					
<b>Operational Programs</b>					
Protocol	5.04	0.00	5.04	5.04	0.00
<b>Total FTEs Operational Programs</b>	<b>5.04</b>	<b>0.00</b>	<b>5.04</b>	<b>5.04</b>	<b>0.00</b>
<b>Administrative Programs</b>					
General & Administrative	0.96	0.00	1.46	1.46	0.50
<b>Total FTEs Administrative Programs</b>	<b>0.96</b>	<b>0.00</b>	<b>1.46</b>	<b>1.46</b>	<b>0.50</b>
<b>Total FTEs</b>	<b>6.00</b>	<b>0.00</b>	<b>6.50</b>	<b>6.50</b>	<b>0.50</b>

<sup>1</sup>A shared FTE is defined as only Texas Regional Entity employees who performs both Statutory and Non-statutory activities; however not for a registered function (e.g. Reliability Coordinator).

## Section D

### 2010 Consolidated Statement of Activities by Program, Statutory and Non-statutory

#### Statement of Financial Position

As of December 31, 2008, unaudited

As of December 31, 2009, projected

As of December 31, 2010, as budgeted

Statement of Financial Position			
2008 Audited, 2009 Projection, and 2010 Budget			
STATUTORY and NON-STATUTORY			
	In-Balance	In-Balance	In-Balance
	Unaudited 31-Dec-08	Projected 31-Dec-09	Budget 31-Dec-10
ASSETS			
Cash	3,959,463	1,714,097	1,929,309
Trade Accounts receivable, net of allowance for uncollectible accounts of \$137,600	-	-	-
Other Receivables	270,609	-	-
Prepaid expenses and other current assets	-	-	-
Security deposit	-	-	-
Cash value of insurance policies	-	-	-
Property and equipment	297,195	545,150	1,696,208
Total Assets	4,527,267	2,259,247	3,625,518
LIABILITIES AND NET ASSETS			
Liabilities			
Accounts payable and accrued expenses	265,115	265,115	265,115
Regulatory Liability	3,095,041	593,983	-
Other Liabilities	869,916	-	-
Deferred compensation	-	-	-
Accrued retirement liabilities	-	-	-
Total Liabilities	4,230,072	859,097	265,115
Net Assets - unrestricted	297,195	1,400,150	3,360,403
Total Liabilities and Net Assets	4,527,267	2,259,247	3,625,518



Section D — Other Exhibits

Texas Regional Entity 2010 Budget

Statement of Activities 2010 Budget	Total	Statutory Total	Non-Statutory Total	Functions in Delegation Agreement											Non-Statutory Functions Non-Statutory Total	
				Statutory Total	Reliability Standards (Section 300)	Compliance and Organization Registration and Certification (Section 400 & 500)	Reliability Assessment and Performance Analysis (Section 600)	Training and Education (Section 900)	Situational Awareness and Infrastructure Security (Section 1000)	Committee and Member Forums	General and Administrative	Legal and Regulatory	Information Technology	Human Resources		Accounting and Finance
<b>Funding</b>																
<b>ERO Funding</b>																
ERO Assessments	9,144,340	9,144,340	-	9,144,340	561,400	6,746,229	630,416	284,526	813,822	-	(6,343)	18,486	37,151	25,001	33,652	-
Penalty Sanctions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total ERO Funding</b>	<b>9,144,340</b>	<b>9,144,340</b>	<b>-</b>	<b>9,144,340</b>	<b>561,400</b>	<b>6,746,229</b>	<b>630,416</b>	<b>284,526</b>	<b>813,822</b>	<b>-</b>	<b>(6,343)</b>	<b>18,486</b>	<b>37,151</b>	<b>25,001</b>	<b>33,652</b>	<b>-</b>
Membership Dues	27,000	27,000	-	27,000	-	-	-	-	-	-	27,000	-	-	-	-	-
Testing Fees	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Services & Software	1,183,879	-	1,183,879	-	-	-	-	-	-	-	-	-	-	-	-	1,183,879
Workshops	180,000	180,000	-	180,000	-	-	-	180,000	-	-	-	-	-	-	-	-
Interest	2,000	2,000	-	2,000	-	-	-	-	-	-	2,000	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Funding</b>	<b>10,537,219</b>	<b>9,353,340</b>	<b>1,183,879</b>	<b>9,353,340</b>	<b>561,400</b>	<b>6,746,229</b>	<b>630,416</b>	<b>464,526</b>	<b>813,822</b>	<b>-</b>	<b>22,657</b>	<b>18,486</b>	<b>37,151</b>	<b>25,001</b>	<b>33,652</b>	<b>1,183,879</b>
<b>Expenses</b>																
<b>Personnel Expenses</b>																
Salaries	4,498,395	3,841,781	656,614	3,841,781	184,729	2,037,418	217,004	81,122	291,164	-	1,030,345	-	-	-	-	656,614
Payroll Taxes	356,162	302,981	53,181	302,981	14,901	161,372	17,187	6,425	23,060	-	80,036	-	-	-	-	53,181
Benefits	481,896	408,773	73,123	408,773	20,489	221,580	23,632	8,834	31,708	-	102,530	-	-	-	-	73,123
Retirement Costs	645,949	550,669	95,280	550,669	26,697	289,434	30,793	11,511	41,316	-	150,918	-	-	-	-	95,280
<b>Total Personnel Expenses</b>	<b>5,982,402</b>	<b>5,104,203</b>	<b>878,199</b>	<b>5,104,203</b>	<b>246,816</b>	<b>2,709,803</b>	<b>288,615</b>	<b>107,893</b>	<b>387,247</b>	<b>-</b>	<b>1,363,829</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>878,199</b>
<b>Meeting Expenses</b>																
Meetings	233,600	228,000	5,600	228,000	400	4,000	-	220,000	-	-	3,600	-	-	-	-	5,600
Travel	195,016	194,392	624	194,392	6,824	154,664	806	-	4,260	-	17,158	4,478	4,057	-	2,145	624
Conference Calls	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Meeting Expenses</b>	<b>428,616</b>	<b>422,392</b>	<b>6,224</b>	<b>422,392</b>	<b>7,224</b>	<b>158,664</b>	<b>806</b>	<b>220,000</b>	<b>4,260</b>	<b>-</b>	<b>20,758</b>	<b>4,478</b>	<b>4,057</b>	<b>-</b>	<b>2,145</b>	<b>6,224</b>
<b>Operating Expenses</b>																
Consultants & Contracts	686,950	604,483	82,467	604,483	-	-	-	-	-	-	604,483	-	-	-	-	82,467
Office Rent	424,500	363,900	60,600	363,900	-	-	-	-	-	-	363,900	-	-	-	-	60,600
Office Costs	49,422	48,612	810	48,612	480	12,062	-	-	-	-	28,830	5,400	960	-	880	810
Professional Services	1,259,930	1,214,246	45,684	1,214,246	18,824	428,660	-	-	-	-	75,300	138,000	214,733	121,720	217,010	45,684
Miscellaneous	52,991	44,843	8,148	44,843	615	15,561	673	842	400	-	1,350	6,200	6,500	-	12,701	8,148
Depreciation	329,657	299,657	30,000	299,657	-	141,107	-	-	-	-	146,550	-	12,000	-	-	30,000
<b>Total Operating Expenses</b>	<b>2,803,449</b>	<b>2,575,740</b>	<b>227,709</b>	<b>2,575,740</b>	<b>19,919</b>	<b>597,389</b>	<b>673</b>	<b>842</b>	<b>400</b>	<b>-</b>	<b>1,220,413</b>	<b>149,600</b>	<b>234,193</b>	<b>121,720</b>	<b>230,591</b>	<b>227,709</b>
<b>Total Direct Expenses</b>	<b>9,214,467</b>	<b>8,102,335</b>	<b>1,112,132</b>	<b>8,102,335</b>	<b>273,959</b>	<b>3,465,857</b>	<b>290,095</b>	<b>328,735</b>	<b>391,907</b>	<b>-</b>	<b>2,605,000</b>	<b>154,078</b>	<b>238,250</b>	<b>121,720</b>	<b>232,736</b>	<b>1,112,132</b>
Indirect Expenses	-	-	-	-	228,439	2,409,652	270,464	107,918	335,309	-	(2,605,000)	(154,078)	(238,250)	(121,720)	(232,736)	-
Other Non-Operating Expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Expenses</b>	<b>9,214,467</b>	<b>8,102,335</b>	<b>1,112,132</b>	<b>8,102,335</b>	<b>502,398</b>	<b>5,875,509</b>	<b>560,559</b>	<b>436,653</b>	<b>727,217</b>	<b>-</b>	<b>(0)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,112,132</b>
<b>Change in Assets</b>	<b>1,322,752</b>	<b>1,251,005</b>	<b>71,748</b>	<b>1,251,005</b>	<b>59,002</b>	<b>870,720</b>	<b>69,857</b>	<b>27,874</b>	<b>86,605</b>	<b>-</b>	<b>22,657</b>	<b>18,486</b>	<b>37,151</b>	<b>25,001</b>	<b>33,652</b>	<b>71,748</b>
<b>Fixed Assets</b>																
Depreciation	(329,657)	(299,657)	(30,000)	(299,657)	-	(141,107)	-	-	-	-	(146,550)	-	(12,000)	-	-	(30,000)
Computer & Software CapEx	1,148,500	1,081,500	67,000	1,081,500	-	374,237	-	-	-	-	-	-	666,263	-	41,000	67,000
Furniture & Fixtures CapEx	332,215	332,215	-	332,215	-	15,215	-	-	0	-	317,000	-	-	-	-	-
Equipment CapEx	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>(Increase) / Decrease in Fixed Assets</b>	<b>(1,151,058)</b>	<b>(1,114,058)</b>	<b>(37,000)</b>	<b>(1,114,058)</b>	<b>-</b>	<b>(248,345)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(170,450)</b>	<b>-</b>	<b>(654,263)</b>	<b>-</b>	<b>(41,000)</b>	<b>(37,000)</b>
Allocation of Fixed Assets	-	-	-	-	(59,002)	(622,375)	(69,857)	(27,874)	(86,605)	-	170,450	-	654,263	-	41,000	-
<b>Change in Fixed Assets</b>	<b>(1,151,058)</b>	<b>(1,114,058)</b>	<b>(37,000)</b>	<b>(1,114,058)</b>	<b>(59,002)</b>	<b>(870,720)</b>	<b>(69,857)</b>	<b>(27,874)</b>	<b>(86,605)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(37,000)</b>
<b>TOTAL CHANGE IN ASSETS</b>	<b>171,694</b>	<b>136,947</b>	<b>34,748</b>	<b>136,947</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>22,657</b>	<b>18,486</b>	<b>37,151</b>	<b>25,001</b>	<b>33,652</b>	<b>34,748</b>
FTE's	46.00	39.50	6.50	39.50	2.06	21.74	2.44	0.97	3.03	-	1.05	3.17	2.49	0.85	1.70	6.50

**ATTACHMENT 5**

**PROPOSED AMENDED 2010 BUSINESS PLAN AND BUDGET**

**OF TEXAS RELIABILITY ENTITY, INC.**

**REDLINED AGAINST**

**APPROVED 2010 BUSINESS PLAN AND BUDGET OF**

**TEXAS REGIONAL ENTITY, A DIVISION OF**

**ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.**



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

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**Texas Reliability Entity, Inc.,**  
**Successor to Texas Regional Entity,**  
**A Division of Electric Reliability Council of Texas, Inc.**

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

**Submitted:**

**August 17, 2009**

**January 8, 2010**

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2010 Texas Regional Reliability Entity Business Plan and Budget  
 Approved by Board of Directors: August 17, 2009  
 January 18, 2010

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Introduction

**Introduction**

Total Texas RE Resources				
(in whole dollars)				
	2010 Budget	U.S.	Canada	Mexico
Statutory FTEs	34,003,950			
Non-statutory FTEs	6,0050			
Total FTEs	40,460,000			
Statutory Expenses	\$6,920,642 9,216,393	\$6,920,642 16,393		
Non-statutory Expenses	\$1,423,772 149,132	\$1,423,772 149,132		
Total Expenses	\$8,044,414 10,365,525	\$8,044,414 365,525		
Statutory Funding	\$6,842,377 9,353,340	\$6,842,377 53,340		
Non-statutory(Member) Funding	\$1,453,772 183,879	\$1,453,772 183,879		
Total Funding	\$7,996,149 10,537,219	\$7,996,149 10,537,219		
NEL	310,856,852	310,856,852		
NEL %	100%	100%		

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**Organizational Overview**

Texas Reliability Entity, Inc. (Texas RE) is a new Texas non-profit corporation which was created to become the successor to the Texas Regional Entity (~~Texas RE~~) is an independent and functionally separate division of Electric Reliability Council of Texas, Inc. (ERCOT ISO), a ~~Texas non-profit corporation which has an approved Regional Delegation Agreement with the North American Reliability Corporation (NERC) for the ERCOT region.~~ The ~~vision and~~ purpose of Texas RE is to become the regional entity for the 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).

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2010 Texas ~~Regional~~Reliability Entity Business Plan and Budget

Approved by Board of Directors: ~~August 17, 2009~~

January 18, 2010

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## Introduction

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The ERCOT region is the geographic area located within the State of Texas that operates under the jurisdiction of the Public Utility Commission of Texas (PUCT) and is not synchronously interconnected with any electric utilities operating outside of Texas. The ERCOT region includes approximately 200,000 square miles and 85% of Texas load.

In May 2007, the Texas Regional Entity division of ERCOT ISO (Original Texas RE) executed its Delegation Agreement with North American Electric Reliability Corporation (NERC), the Electric Reliability Organization (ERO) certified by the Federal Energy Regulatory Commission (FERC), pursuant to Section 215(c) of the Federal Power Act (FPA). In response to subsequent orders by the Commission, Original Texas RE and NERC signed Amended and Restated Delegation Agreements on March 28, 2008 and January 3, 2009.

In the May 2007 Delegation Agreement and the March 28, 2008 and January 3, 2009 Amended and Restated Delegation Agreements (collectively "the Original Delegation Agreement"), NERC delegates/delegated to Original Texas RE certain responsibilities and authorities of a regional entity as defined in the FPA, regulations adopted by the Commission (including but not limited to Order Nos. 672 and 672-A in Docket No. RM05-30-000), and other directives of the Commission, including the authority to propose, develop, monitor, assess, and enforce reliability standards and regional standards and variances within the ERCOT region, in accordance with the NERC Rules of Procedure (ROP). Texas RE's These activities under the Original Delegation Agreement and the proposed new Delegation Agreement for Texas RE are referred to herein as Statutory activities.

In addition to Texas RE's Statutory activities, Texas RE monitors, investigates, audits, and reports Texas RE seeks, concurrently with the submission of this 2010 Amended Business Plan and Budget, to be approved as a regional entity and take over the performance of the Statutory activities under a new or amended Delegation Agreement with NERC ("Delegation Agreement"). Texas RE intends to begin its performance of the delegated activities as a successor to Original Texas RE approximately sixty (60) days after FERC approves the Delegation Agreement and this proposed 2010 Amended Business Plan and Budget. The date upon which Texas RE begins to perform under the Delegation Agreement (and Original Texas RE ceases performance of regional entity delegated functions under the Original Delegation Agreement) is referred to herein as the "Implementation." In preparing this 2010 Amended Business Plan and Budget, the Implementation is projected to occur on July 1, 2010; however, the amount of start-up and incremental operating costs that Texas RE expects to incur in 2010 would not be significantly affected were the Implementation to be one to two months earlier or later than this date.

Beginning with the Implementation, in addition to performing the Statutory activities, Texas RE will also monitor, investigate, audit, and report on compliance with the ERCOT region reliability-based Protocols and Operating Guides (Protocols) for the PUCT, pursuant to as a transition of the PUCT-approved ERCOT Compliance Process. Texas RE's activities performed by Original Texas RE, through at least December 31, 2010. These Protocol compliance activities are referred to herein as Non-Statutory activities. Texas RE ~~coordinates~~ will coordinate with PUCT staff regarding enforcement of potential Protocol violations, ~~but~~ and the PUCT ~~prosecutes~~ will prosecute any Protocol violations that result in enforcement actions. Due process is provided to any entity that is reported to have violated a Protocol, pursuant to state law, and the PUCT makes all final decisions regarding Protocol violations.

### Overview of the Texas RE proposed 2010 Amended Business Plan and Budget

Texas RE's proposed 2010 Amended and Restated Business Plan and Budget (referred to herein as "Amended Budget" or "Proposed Budget") includes (A) the expenditures required by Original Texas RE under its previously submitted and approved 2010 Business Plan and

2010 Texas ~~Regional~~Reliability Entity Business Plan and Budget

Approved by Board of Directors: ~~August 17, 2009~~

January 18, 2010

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## Introduction

Budget<sup>1</sup> (referred to herein as "Approved Budget") until Implementation, which is estimated herein to be July 1, 2010, and (B) the expenditures required by Texas RE in 2010 for its start up costs and for operating expenses it incurs in 2010 as a regional entity, beginning at Implementation. In addition, the 2010 Amended Budget recognizes, through appropriate adjustments to the Working Capital Reserve Analysis, certain major cost impacts that were not recognized in the 2010 Approved Budget submitted by Original Texas RE to NERC in July and August 2009 and by NERC to the Commission in August 2009, but have manifested subsequent to August 2009.

In general, the organization of the 2010 Amended Budget follows the organization of the 2010 Approved Budget except where revisions are needed to describe the impacts of the above-described changes. In addition, in several instances in which an assumption is mentioned that is now known to be incorrect (for reasons unrelated to the formation of Texas RE as a separate entity), the fact that the assumption is no longer valid is noted. (A separate, redlined version of the 2010 Amended Budget against the 2010 Approved Budget is also being provided.) Further, in the Statements of Activities and the summary tables for each statutory program, the values for the 2010 Approved Budget, the incremental costs due to the separation of Texas RE, and the resulting 2010 Amended Budget, are shown.

Original Texas RE will continue to perform under the Original Delegation Agreement and its approved 2010 Business Plan and Budget until Implementation, when Texas RE will begin to perform the Statutory and Non-statutory activities under a new Delegation Agreement. Original Texas RE will hire some of the additional employees required by new Texas RE prior to Implementation, to help prepare for the Implementation and for the prior transition of many of the administrative services that were performed for Original Texas RE by ERCOT ISO under the Memorandum of Understanding which was attached to the Original Texas RE 2010 Business Plan & Budget filing (MOU).

Upon Implementation, any remaining Original Texas RE funds, from cash reserves, penalties, and any Statutory revenues which are not spent by Original Texas RE performing Statutory Activities, will be distributed to Texas RE. Texas RE and NERC will, within ninety (90) days after Implementation, prepare and file a reconciliation of the approved 2010 budget of Original Texas RE to the actual expenditures and revenues, from January 1, 2010 to Implementation, to demonstrate that all unspent collections and reserves were appropriately transferred to Texas RE.

### **Membership and Governance**

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

- System Coordination and Planning - An entity that is ~~an independent division~~ registered with NERC as a Reliability Coordinator (RC), Balancing Authority (BA), Planning Authority (PA), Resource Planner (RP), or Interchange Authority (IA).

<sup>1</sup> See Request of the North American Electric Reliability Corporation for Acceptance of its 2010 Business Plan and Budget and the 2010 Business Plans and Budgets of Regional Entities and for Approval of Proposed Assessments to Fund Budgets, filed August 24, 2009 in Docket RR09-9-000; and Order Conditionally Accepting 2010 Business Plan And Budget of the North American Electric Reliability Corporation and Ordering Compliance Filings, 129 FERC ¶ 61,040 (October 15, 2009)

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- 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 ERCOT ISO, members 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 ERCOT ISO are also members authority to conduct affairs in the State of Texas RE. These members can be from any ERCOT ISO Segment (as listed below), and, except; 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 the Consumer Segment, must have an actual financial interest in the 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 or wholesale electric market 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 and be able to do business in one of these markets. ERCOT ISO 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.

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

Texas RE's board is comprised of the sixteen (16) directors of the ERCOT ISO board, including the Texas RE is governed by a hybrid board of directors (Board), comprised of the following nine (9) directors:

- The Texas RE Chief Executive Officer
- The Chair of the PUCT, as an ex officio non-voting member, the ERCOT ISO CEO as an ex officio voting member, five (5) Unaffiliated Directors (not affiliated with any ERCOT ISO market participant), and directors from the following market Segments:

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- ~~Three (3) Consumers:~~
  - ~~Texas Public Counsel, from the Texas Office of Public Utility Counsel (representing residential consumers and small commercial consumers, as an ex officio non-voting member~~
    - ~~Large Commercial Consumer (peak demand >1000 kilowatts)~~
    - ~~Industrial Consumer~~
- ~~One (1) Four (4) Independent Retail Electric Provider (and one segment alternate) Directors~~
  - ~~One (1) Generator (and one segment alternate)~~
  - ~~One (1) Independent Power Marketer (and one segment alternate)~~
  - ~~One (1) Investor Owned Utility (and one segment alternate)~~
  - ~~One (1) Municipal (and one segment alternate)~~
  - ~~One (1) Cooperative (and one segment alternate)~~

~~The Texas RE directors maintain independence from their role as ERCOT ISO directors by holding board and committee meetings separately from ERCOT ISO meetings and by not having any role regarding Texas RE's Statutory compliance and enforcement activities (as described below).~~

- ~~Two (2) Member Directors (the Chair and Vice-Chair of the Member Representatives Committee).~~

~~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 ~~ROP~~ Rules of Procedure (NERC ROP), Texas RE performs the following Statutory Functions:

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- Propose and participate in the development of reliability standards, or modifications thereof and propose and develop needed regional standards or variances through Texas RE's Standards Development Process.
- Monitor and enforce approved reliability standards, including the registration of responsible entities and, as needed, the certification of such entities within the ERCOT region, through the Compliance Monitoring and Enforcement Program (CMEP).
- Perform other delegation-related services on behalf of NERC, in furtherance of NERC's responsibilities as the ERO under the FPA, including:
  - Assessment and performance analysis of the present and future reliability, adequacy, and security of the BPS.
  - Promote effective training and education of reliability personnel and assist in the certification of operating personnel.
  - Promote situational awareness and the security and protection of critical infrastructure.

## 2010 Key Assumptions

The key assumptions for Texas RE's 2010 Amended Budget include the following:

- Original Texas RE will remain functionally separate from ERCOT ISO and will continue to receive at least some administrative services (including human resources and support possibly information technology services) from ERCOT ISO through a memorandum of understanding (which was amended as of February 16, 2009 and ~~is was~~ attached ~~with to~~ the Original Texas RE 2010 Business Plan & Budget filing ~~as exhibit A(MOU))~~ until the Implementation.
- ~~Texas RE will enhance its 60 day cash reserve established~~ be legally separate from ERCOT ISO, will not obtain administrative or other services from ERCOT ISO, and as a result will be required to pay more for some of the administrative services and employee benefits than Original Texas RE paid through the MOU, including:
  - Texas RE will hire six (6) additional corporate services employees not required in 2009 with the Original Texas RE 2010 Business Plan and Budget
  - Texas RE will outsource certain information technology services at cost higher than the amount paid by Original Texas RE to ERCOT ISO under the MOU
  - Texas RE will be required to pay more for employee benefits than the amount paid by Original Texas RE for similar services under the MOU
- Texas RE will use competitive processes, to the extent feasible, to procure the administrative services, goods, and employee benefits formerly provided to Original Texas RE under the MOU.
- Texas RE will be required to expend substantial start up costs for such things as furniture, software, information technology equipment (computers, telephone system, and servers), search firm expenses for independent directors, and contract assignments.
- Texas RE will maintain a 75-day cash reserve in 2010. ~~Texas RE still possesses unspent funds that will offset this amount.~~
- The Delegation Agreement requirements and NERC expectations will be ~~constant~~ consistent with those under the current Delegation Agreement between NERC

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and Original Texas RE (without taking into account, for purposes of the 2010 Amended Budget, changes that may result from the currently ongoing renegotiation of the Delegation Agreements between NERC and the Regional Entities).

- Texas RE will use any surplus funds transferred from the prior year Original Texas RE, and any penalty funds received by Original Texas RE or Texas RE prior to July 1, 2009, to offset 2010 funding requirements. All unanticipated expenses incurred in 2009 by Original Texas RE are offset by 2009 underspending in other areas; so, the surplus funds in the 2010 Approved Budget have not changed.
- The number of registered entities is and the current audit frequency are expected to remain fairly constant, except as specifically described herein (e.g. the Load Serving Entity function) and the current audit frequency will remain constant.
- The number of contested enforcement and registration cases will remain low fairly low in 2010 but will be slightly higher than originally estimated by Original Texas RE – one to two large or two to three small-to-mid-sized disputes per year.
- ERCOT ISO will continue to take primary responsibility for the research and preparation of the seasonal and long-term reliability assessments, with Texas RE responsible for coordination and review of such assessments coordinating, reviewing, and providing comments on such assessments, and ensuring timely submission to NERC. This is a changed statement of this assumption from the approved Original Texas RE Approved 2010 Budget.
- NERC, Texas RE, and the other regional entities will continue to invest in technology improvements and process automation to improve efficiency and increase national consistency.
- Texas RE NERC will lead the audits & other compliance monitoring processes, and enforcement of ERCOT ISO. Although NERC will participate, NERC will not charge during the time Original Texas RE is the regional entity under the Delegation Agreement (until Implementation). This is a changed assumption from the approved Original Texas RE a fee for 2010 Approved Budget.
- NERC will charge Original Texas RE fees to cover NERC's participation costs for its leadership/performance of compliance monitoring and enforcement activities of ERCOT, but Original Texas RE and Texas RE will fund any such fees out of reserves. (NERC's costs will include its personnel expenses, travel expenses, an allocation of overhead based upon the time spent performing the function, and any other costs incurred specifically related to performance of compliance monitoring and enforcement activities in the Region. The impact of such costs incurred in 2009 was offset by positive variances in other areas and did not require an adjustment to the Working Capital Reserve.)
- Texas RE has not budgeted to conduct CIP audits of nuclear facilities.
- Texas RE estimated the budget immediately required for the evaluation of Technical Feasibility Exception (TFE) requests based upon the information available at this time.

## 2010 Goals and Key Deliverables

Texas RE's Goals and Key Deliverables for 2010 are as follows:

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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 CMEP
  - a. Maintain registrations for responsible entities.
  - b. Monitor compliance of registered entities in the ERCOT region with mandatory standards, while adopting risk-based methodologies to optimize reliability benefits and improving quality and timeliness.
  - c. Ensure timely and thorough mitigation of all violations of mandatory reliability standards.
  - d. Enforce registered entities' compliance with the mandatory standards, while improving timeliness.
  - e. Promote a strong culture of compliance excellence, reliability improvement, and risk-based methods among registered entities in the ERCOT region.
2. Effectively communicate with NERC, other regional entities, regulators, and industry stakeholders as follows:
  - a. Continue to build and improve cooperative relationships with other registered entities, industry stakeholders, and regulators through regular, consistent messaging regarding all of Texas RE's program areas.
  - b. Deliver a consistent message through the ~~new~~ Texas RE website and a variety of electronic media (including the bi-monthly newsletter) as a timely and efficient means of providing important information to the industry and the public.
3. Maintain effective financial controls and conduct Texas RE operations within the approved budget.
4. Effectively manage the Texas RE Standards Development Process
  - a. Participate in and encourage stakeholder participation in the development of national standards, in support of the NERC three-year plan
  - b. Propose and facilitate development of regional standards or variances that are needed to comply with NERC's three-year plan, FERC directives, and any ERCOT region-wide physical differences.
5. Continue to increase situational awareness and event analysis capabilities, to improve timeliness of root cause analyses and lessons learned and strengthen overall reliability.
6. Work with NERC and the other regional entities to develop appropriate procedures for auditing and monitoring cyber and physical security of critical infrastructure.
7. Efficiently adopt appropriate technology to increase efficiency and productivity.
8. Establish ~~Key Performance Indicators~~ key performance indicators and ~~Benchmarks~~ benchmarks for Texas RE operations.

## Overview of Cost Impacts

### In – Operating Expenses – of the 2010 Amended Business Plan and Budget

In the proposed 2010 Amended Budget, total direct Statutory expenses are increasing by 33% or \$1,686K \$1,921K (28.5%) in recurring direct operating expenses less reductions in payments to ERCOT under the MOU (“MOU reductions”) of \$787K, for a net increase of \$1,134K (16.8%) from the 2009 Budget 2010 Approved Budget. This increase includes reflects the additional expenses required effort to due to the legal separation of Texas RE and the elimination of the lower cost administrative services by ERCOT. This increase does not include the required one-time start-up costs to support the new TFE evaluation activity, which is 8% of the total increase formation of Texas RE as a structurally separate entity from ERCOT ISO (described below). The total recurring Statutory increase is primarily being driven by the following items:

1. Increased personnel expenses resulting from adding ~~eight (8)~~ six (6) additional staff (~~7.05~~ 5.50 FTEs Statutory, ~~.95~~ .50 FTEs Non-statutory) and salary and benefit increases for existing staff. The total increase for personnel expenses salaries is approximately \$1,445K 490K. Additionally, the expected increase in benefits expense for those employees is \$156K. This results in a total Statutory personnel expense increase of \$646K due to the new separate corporate entity and elimination of administrative services from ERCOT ISO.
2. Increased technology and capital expenditures, including \$288K increase in the Texas Regional Entity Compliance Portal projects, document management system project, and other management and reporting tools to improve quality, efficiency and consistency of reporting total \$207K
3. Increased cash reserves total \$516K which in 2010, does not impact Contracts & Consultants category for recurring board-related expenses. This cash reserve is being funded through unspent funds from prior years (Texas RE's regulatory liability) appearing on Texas RE's balance sheet and does not appear on the statement of activities. We are listing it for disclosure purposes.
4. Increased travel costs associated with NERC and Regional Entity meetings and compliance audits total \$87K.
- 5.2. Increased cost of and increased administrative services received from ERCOT ISO through expenses incurred under the MOU total \$185K offset by reductions for new employees prior to and in rent expense and facilities services year-over-year of \$190K preparation for Implementation.
3. The Operations Training Seminar is budgeted \$230K increase in 2010 Texas RE Office Rent expenses related to accommodate a venue change that occurred meeting space needs, increase in 2009. This resulted facility and maintenance expenses (for services previously provided under the MOU), and estimated expenses for a potential 2010 office move for Texas RE (since its lease expires in increased costs; however these costs were funded by seminar attendees through December 2010).
4. \$4K increase in Office Cost expenses due to additional office supplies and printing for new employees, membership, and items related to the formation of the new corporation.

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5. \$597K for increased Professional Services expenses:
  - a. \$71K for increased employee benefit administration for employees (since these benefit administration services will no longer be provided under the MOU and will cost more from a third party vendor, based upon initial verbal quotes from potential vendors).
  - b. \$51K for additional recruitment expenses.
  - c. \$181K for the estimated increased technology expenditures (based upon preliminary discussions with vendors at the beginning of our competitive process), due to the increased cost of information technology (IT) support services from third-party vendors that will replace the services provided to Original Texas RE by ERCOT under the MOU.
  - d. \$64K for the increased cost accounting services from third-party vendors (based upon initial verbal quotes from potential vendors) instead of under the MOU.
  - e. \$43K for the cost of outsourced internal audit function (formerly included in the MOU).
  - f. \$83K for the estimated increased cost for general liability, property and casualty, Directors & Officers, and Errors & Omissions insurance coverage when it is separated from ERCOT's insurance.
  - g. \$15K for an increase in the cost of security services (based upon discussions with vendors), which were previously obtained under the MOU.
  - h. \$90K for increased outside legal expenses, due to the expectation of a greater number of, and scope of, enforcement and registration fees. For appeals during 2010, the than was assumed in the 2010 Approved Budget. These increased legal expenses are not due to the formation of the new entity or the elimination of the MOU.
6. \$9K increase in the miscellaneous expense category due to the treasury fees to be incurred for start-up and on-going cash management services (formerly provided under the MOU).
7. \$147K for increased depreciation expense.
8. The above-listed costs are offset by reduced spending on costs that were estimated to be incurred under the MOU of \$787K. The detailed breakout of the \$787K in reductions is: \$560K in MOU reductions related to Consultants & Contracts, \$193K in MOU reductions related to office rent, and \$34K in reductions related to Professional Services.

### Overview of Cost Impacts – Texas RE Start-Up Costs

In the proposed 2010 Amended Budget, total direct Statutory start-up costs are budgeted at \$1,162K, comprised of \$217K of operating expenses and \$1,092K of capital additions, offset by

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increased depreciation expense of \$147K. These costs are one-time costs that will not reoccur in future years. The total increase is primarily being driven by the following items that Texas RE must procure from independent third party vendors to replace the goods and services currently provided to Original Texas RE under its MOU with ERCOT ISO:

1. Texas RE must procure IT assets and establish an independent IT environment that operates without the assistance of ERCOT ISO. The expected increase year-over-year is approximately \$110K. This amount capital costs are budgeted at \$634K.
2. Texas RE will procure an accounting system to process all of the accounting data; this is budgeted at \$41K.
- 6.3. Texas RE will also procure office furniture, workstations for employees, as well as conference room furniture, etc.; these are capital additions and are expected to be similarly funded through the seminar registration fees attendees pay total \$317K.
4. Texas RE is also budgeting for the recruitment fees anticipated with securing four (4) independent directors. This search fee is expected to be \$200K.
5. Texas RE must expend approximately \$17K for the set-up and implementation of the HRIS, Payroll, and Expense Reporting systems.
6. \$100K for a Texas RE Compliance and Enforcement Data Management System (a database tool designed to allow employees to efficiently and flexibly retrieve, view, and analyze registered entity compliance and enforcement information while maintaining data integrity and completeness and reducing the amount of employee time spent manually managing data).
7. Finally, the above costs are offset by the increased depreciation expense of \$147K.

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## Detailed Business Plans and Budgets by Program

Details of the planning, operation, review, and adjustment for each program area are included in Section A. The corresponding budget details are shown in Section B.

**Section A — 2010 Business Plan**

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**Reliability Standards Program**

Reliability Standards Program Resources			
(in whole dollars)			
2009 <del>2010</del> Approved Budget		2010 Amended Budget	
Increase (Decrease)			
Total FTEs	<del>1.70</del> 2.06	2.06	0.36 <del>00</del>
Total Direct Expenses	<del>\$176,491</del> 273,959	\$273,959	<del>\$97,468</del> 0
Total Indirect Expenses <sup>2</sup>	<del>\$287,778</del> 136,410	<del>\$136,410</del> 228,439	<del>(\$151,368)</del> 92,029
Total Expenses	<del>\$464,269</del> 410,369	<del>\$410,369</del> 502,398	<del>(\$53,900)</del> 92,029

Texas RE Standards staff facilitates the development of regional standards and variances, in accordance with the Texas RE Standards Development Process, which was approved as Exhibit C to the Delegation Agreement. Texas RE standards staff coordinates and publicly posts information regarding the activities of the Reliability Standards Committee (RSC) and all standards drafting teams (SDTs).

The Texas RE Standards Development Process is open to all organizations that are materially affected by the ERCOT region BPS, with no undue financial barriers. Any such entity has the right to participate by expressing an opinion, having its opinion considered, and having the right to appeal. Notice of all meetings of the Texas RE RSC and all drafting teams are provided on the Texas RE website and are open to the public.

The Texas RE Standards Development Process provides for a balance of interests, containing ~~seven market segments~~ six Sectors and a requirement of a vote of at least two-thirds of the ~~segments~~ sectors for approval of any regional standard. ~~The first Texas RE Standard Authorization Request (SAR), SAR-001, proposed to add an additional market segment, with a~~

<sup>2</sup> Indirect funding is calculated by allocating all administrative services funding to the operational program areas on a proportional FTE basis.

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## Section B — 2010 Regional Entity Budget

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~~¼ vote, for ERCOT ISO and has been approved by NERC and filed with FERC.~~ No two ~~segments~~Sectors can approve, and no single ~~segment~~Sector can defeat any matter. In addition, each of the ~~current seven segments has six Sectors with~~ at least two members has two representatives on the RSC. Currently, 47 entities have joined the RBB, representing about 25% of all Texas RE members.

Texas RE's Standards Development Process provides for fair and due process by providing sufficient public notice of the intent to develop a regional standard. In addition, all proposed standards are posted on the Texas RE Reliability Standards Tracking site for public comments. The site allows all interested parties to submit comments during the commenting period. This process also provides an appeals process.

The RSC meets once a month. The SDTs meet as necessary and include WebEx participation. In addition to facilitating all meetings, Texas RE Standards employees are directly involved in the non-technical aspects of the drafting of the standards. Texas RE Compliance employees also provide technical support, as requested. To promote wider awareness of and participation in the reliability standards process throughout the ERCOT region, Texas RE launched the Reliability Standards Tracking site in 2008. The tool allows all registered parties to efficiently submit comments on SARs and draft standards during commenting periods and allows members of the Registered Ballot Body (RBB) to vote online.

Texas RE staff supports and participates in the NERC Standards Committee and Regional Reliability Standards Working Group and has contributed to the 2009-2011 NERC Work Plan. The Texas RE Manager of Standards was nominated and accepted into the NERC Communications and Planning Subcommittee of the NERC Standards Committee. In addition, the Texas RE staff review draft reliability standards from other regions, and staff from other regional entities review draft Texas RE regional standards.

Texas RE informs stakeholders of the impact and requirements of emerging NERC standards through training at the Texas RE workshops. In general, Texas RE works to ensure that stakeholders have the most current and accurate information on reliability standards. ~~procedures~~Procedures, forms, meetings, minutes, notes, agendas, drafts, etc., for all regional activities associated with standards are posted in a timely fashion on the Texas RE website. Market notices on major topics and upcoming meetings are sent regularly to Texas RE email lists. Articles on reliability standards topics are included in the bi-monthly Texas RE newsletter.

### 2010 Key Assumptions

- Standards workflow remains constant, with no more than four (4) new SARs being developed during 2010.

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## Section B — 2010 Regional Entity Budget

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- Standards program staffing is complete with two full time equivalent employees (FTEs) to maintain the continuation of existing SARs and development of potential new ones.
- Travel will increase in 2010 to meet goals of increasing participation in NERC and other regional committees and subcommittees.

### 2010 Goals and Key Deliverables

The goals of the Reliability Standards Program for 2010 are as follows:

1. Meet all FERC and NERC directives with regard to regional standards development and procedures and maintain effective relationships and communications with the standards staff at NERC and the other regional entities.
2. Develop regional standards program communications that educate and inform stakeholders and support the Texas RE Standards Development program objectives.
3. Work closely with NERC and registered entities within the Texas RE footprint to develop regional standards that go beyond, add detail to, or implement NERC Reliability Standards; obtain a regional variance; or otherwise address issues that are not addressed in NERC Reliability Standards.
4. Ensure consistency and quality of regional standards without causing undue restrictions or adverse impacts on competitive electricity markets.
5. Ensure Texas RE Reliability Standards development process is aligned to meet agreed-upon expectations.
6. Streamline and improve the Texas RE's Standards Development Process and associated tools.
7. Participate and be actively involved in various NERC reliability standards ~~program~~ programs and related functions.
8. Continue to educate and inform the market participants to ensure adequate representation on the Registered Ballot Body.

To implement these goals Texas RE Standards staff is leading the RSC in developing a scope of work for the RSC to include more comprehensive review and comment to the existing and proposed NERC standards under development for tracking of possible regional variances that may be necessary with the associated continent-wide efforts. Texas RE Standards staff presented the RSC with the 39 standards development projects in the current NERC workplan and asked the RSC to rank them in importance. Ten projects emerged as most important to the ERCOT region. The RSC plans to have subject matter experts (SMEs) make one presentation each month on the 10 projects for evaluation as to any potential regional standard that may be

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**Section B — 2010 Regional Entity Budget**

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necessary. ~~A presentation on NERC Project 2006-03 System Restoration and Blackstart (EOP-005, 006, 007 and 009) was made at the March RSC meeting. Texas RE also supports revising the NERC Fill-in-the-Blank standards, and will help develop (as necessary) any regional standards that are subsequently required.~~

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

Texas RE Standards staff is considering having a regional standards workshop (a longer and more detailed presentation than the normal standards presentation made during the Compliance workshop), to allow ERCOT region stakeholders to learn about standards in general and the process for developing new regional and national standards. If this workshop is warranted, it would occur in the latter half of ~~2009-2010~~. Otherwise, Texas RE Standards staff will continue to include a standards section in the Compliance Workshop.

~~Stakeholders also~~ ~~Previously, stakeholders~~ submitted comments indicating that the NERC Fill-in-the-Blank standards have caused confusion. Texas RE supports the concept of revising the standards to remove the Fill-in-the-Blank components. Texas RE will develop (as necessary) any regional standards that are subsequently required.

A regional-wide announcement was sent out in December 2008 to update and solicit more RBB registrations, to ensure wider participation by all ~~segments-sectors~~. This announcement was part of the ballot pool solicitation and formation efforts for SAR-001. This resulted in the 47 RBB members as of February 28, 2009.

Texas RE Standards staff will increase its participation in NERC Standards Committee meetings to stay current on all NERC Standards under development for presentation to the ERCOT ISO stakeholders, and Texas RE will continue participating in the NERC Communication and Planning Subcommittee.

Section B — 2010 Regional Entity Budget

**Funding Requirements — Explanation of Increase (Decrease) Over 2010 Approved Budget**

The ~~Reliability Standards~~ funding requirements ~~reflects~~reflect an increase of ~~\$235K year-over-year~~150K from the 2010 Approved Budget for ~~two (2) reasons:~~

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

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**Section B — 2010 Regional Entity Budget**

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**Reliability Standards Program**

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

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Section B — 2010 Regional Entity Budget

<b>Statement of Activities</b>					
<b>2009 Budget &amp; Projection, and 2010 Budget</b>					
<b>Reliability Standards</b>					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
<b>Funding</b>					
<b>ERO Funding</b>					
ERO Assessments	\$ 176,491	\$ 176,491	\$ -	\$ 411,750	\$ 235,259
Penalty Sanctions	-	-	-	-	-
<b>Total ERO Funding</b>	<b>\$ 176,491</b>	<b>\$ 176,491</b>	<b>\$ -</b>	<b>\$ 411,750</b>	<b>\$ 235,259</b>
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
<b>Total Funding</b>	<b>\$ 176,491</b>	<b>\$ 176,491</b>	<b>\$ -</b>	<b>\$ 411,750</b>	<b>\$ 235,259</b>
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	\$ 127,238	\$ 159,073	\$ 31,835	\$ 184,729	\$ 57,491
Payroll Taxes	10,179	11,949	1,770	14,901	4,722
Benefits	14,320	10,126	(4,194)	20,489	6,169
Retirement Costs	18,450	21,800	3,350	26,697	8,248
<b>Total Personnel Expenses</b>	<b>\$ 170,187</b>	<b>\$ 202,948</b>	<b>\$ 32,762</b>	<b>\$ 246,816</b>	<b>\$ 76,629</b>
<b>Meeting Expenses</b>					
Meetings	-	304	304	400	400
Travel	4,344	3,389	(955)	6,824	2,480
Conference Calls	-	-	-	-	-
<b>Total Meeting Expenses</b>	<b>\$ 4,344</b>	<b>\$ 3,693</b>	<b>\$ (651)</b>	<b>\$ 7,224</b>	<b>\$ 2,880</b>
<b>Operating Expenses</b>					
Consultants & Contracts	-	-	-	-	-
Office Rent	-	-	-	-	-
Office Costs	1,960	456	(1,504)	480	(1,480)
Professional Services	-	10,938	10,938	18,824	18,824
Miscellaneous	-	470	470	615	615
Depreciation	-	-	-	-	-
<b>Total Operating Expenses</b>	<b>\$ 1,960</b>	<b>\$ 11,864</b>	<b>\$ 9,904</b>	<b>\$ 19,919</b>	<b>\$ 17,959</b>
<b>Total Direct Expenses</b>	<b>\$ 176,491</b>	<b>\$ 218,506</b>	<b>\$ 42,015</b>	<b>\$ 273,959</b>	<b>\$ 97,468</b>
<b>Indirect Expenses</b>	<b>\$ 287,778</b>	<b>\$ 211,201</b>	<b>\$ (76,578)</b>	<b>\$ 136,410</b>	<b>\$ (151,368)</b>
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total Expenses</b>	<b>\$ 464,269</b>	<b>\$ 429,707</b>	<b>\$ (34,562)</b>	<b>\$ 410,369</b>	<b>\$ (53,900)</b>
<b>Change in Assets</b>	<b>\$ (287,778)</b>	<b>\$ (253,216)</b>	<b>\$ 34,562</b>	<b>\$ 1,381</b>	<b>\$ 289,159</b>
<b>Fixed Assets</b>					
Depreciation	-	-	-	-	-
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
<b>(Incr)Dec in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Allocation of Fixed Assets	\$ (20,746)	\$ (20,746)	\$ -	\$ (1,381)	\$ 19,365
<b>Change in Fixed Assets</b>	<b>\$ (20,746)</b>	<b>\$ (20,746)</b>	<b>\$ -</b>	<b>\$ (1,381)</b>	<b>\$ 19,365</b>
<b>TOTAL CHANGE IN ASSETS</b>	<b>\$ (308,524)</b>	<b>\$ (273,962)</b>	<b>\$ 34,562</b>	<b>\$ (0)</b>	<b>\$ 308,524</b>

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<b>Statement of Activities</b>			
<b>2010 Approved Budget &amp; 2010 Amended Budget</b>			
<b>Reliability Standards</b>			
	2010 Approved Budget	2010 Adjustment to the Approved Budget	2010 Amended Budget
<b>Funding</b>			
<b>ERO Funding</b>			
ERO Assessments	\$ 411,750	\$ 149,650	\$ 561,400
Penalty Sanctions	-	-	-
<b>Total ERO Funding</b>	<b>\$ 411,750</b>	<b>\$ 149,650</b>	<b>\$ 561,400</b>
Membership Dues	-	-	-
Testing Fees	-	-	-
Services & Software	-	-	-
Workshops	-	-	-
Interest	-	-	-
Miscellaneous	-	-	-
<b>Total Funding</b>	<b>\$ 411,750</b>	<b>\$ 149,650</b>	<b>\$ 561,400</b>
<b>Expenses</b>			
<b>Personnel Expenses</b>			
Salaries	\$ 184,729	-	\$ 184,729
Payroll Taxes	14,901	-	14,901
Benefits	20,489	-	20,489
Retirement Costs	26,697	-	26,697
<b>Total Personnel Expenses</b>	<b>\$ 246,816</b>	<b>\$ -</b>	<b>\$ 246,816</b>
<b>Meeting Expenses</b>			
Meetings	\$ 400	-	\$ 400
Travel	6,824	-	6,824
Conference Calls	-	-	-
<b>Total Meeting Expenses</b>	<b>\$ 7,224</b>	<b>\$ -</b>	<b>\$ 7,224</b>
<b>Operating Expenses</b>			
Consultants & Contracts	\$ -	-	\$ -
Office Rent	-	-	-
Office Costs	480	-	480
Professional Services	18,824	-	18,824
Miscellaneous	615	-	615
Depreciation	-	-	-
<b>Total Operating Expenses</b>	<b>\$ 19,919</b>	<b>\$ -</b>	<b>\$ 19,919</b>
<b>Total Direct Expenses</b>	<b>\$ 273,959</b>	<b>\$ -</b>	<b>\$ 273,959</b>
<b>Indirect Expenses</b>	<b>\$ 136,410</b>	<b>\$ 92,029</b>	<b>\$ 228,439</b>
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total Expenses</b>	<b>\$ 410,369</b>	<b>\$ 92,029</b>	<b>\$ 502,398</b>
<b>Change in Assets</b>	<b>\$ 1,381</b>	<b>\$ 57,621</b>	<b>\$ 59,002</b>
<b>Fixed Assets</b>			
Depreciation	\$ -	\$ -	\$ -
Computer & Software CapEx	-	-	-
Furniture & Fixtures CapEx	-	-	-
Equipment CapEx	-	-	-
Leasehold Improvements	-	-	-
<b>(Incr)Dec in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Allocation of Fixed Assets	\$ (1,381)	\$ (57,621)	\$ (59,002)
<b>Change in Fixed Assets</b>	<b>\$ (1,381)</b>	<b>\$ (57,621)</b>	<b>\$ (59,002)</b>
<b>TOTAL CHANGE IN ASSETS</b>	<b>-</b>	<b>\$ -</b>	<b>\$ -</b>

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Explanations of Variances – Proposed 2010 Amended Budget versus 2009 Approved 2010 Budget

Funding Sources

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

Personnel Expenses

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

Meeting Expenses

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

Operating Expenses

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

Indirect Expenses

- Indirect expenses are ~~decreasing~~increasing by ~~\$\$151K year-over-year, through \$92K~~due to the identification of direct expenses that were previously budgeted in start-up costs and the increased administrative services costs of Texas RE. These increased indirect expenses were allocated to the direct statutory programs on the basis of proportional numbers of FTE employees in each statutory program. The result is a total of \$228K for indirect expenses through 2010.

Other Non-Operating Expenses

- N/A

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**Fixed Asset Additions**

- ~~There are no new direct fixed~~Fixed asset additions for this program; however, there is a slight increase due to the allocation of the increased administrative services' fixed assets. ~~expenditures which are required for the start-up of Texas RE, in the amount of approximately \$58K, bringing the total fixed asset additions to \$59K for 2010.~~

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

Compliance Monitoring and Enforcement and Organization Registration and Certification Program Resources			
(in whole dollars)			
2009 Approved Budget		2010 Amended Budget	
Increase(Decrease)			
Total FTEs	<del>14.15</del> 21.74	21.74	<del>7.59</del> 0.00
Total Direct Expenses	<del>\$1,628,802</del> <del>\$3,465,857</del>	\$3,465,857	<del>\$1,837,055</del> 0
Total Indirect Expenses	<del>\$2,404,884</del> <del>\$1,438,898</del>	<del>\$1,438,898</del> 2,409,652	<del>(\$965,983)</del> \$970,754
Total Expenses	<del>\$4,033,683</del> 904,755	<del>\$4,904,755</del> 5,875,509	<del>\$871,072</del> 970,754

The purpose of Texas RE's Compliance Monitoring and Enforcement Program (CMEP) is to protect the reliability of the ERCOT region's Bulk-Power System (BPS) through ~~our~~ interactions with and oversight of the registered entities in the region. Texas RE is responsible for monitoring, assessing, and enforcing compliance with NERC Reliability Standards and regional standards for all registered entities in the ERCOT region. The CMEP activities make up the majority of the work currently done by Texas RE although Non-statutory work continues to be an important aspect of overall compliance in the ERCOT region.

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The CMEP focuses on four primary areas: properly registering organizations responsible for complying with reliability standards (Organization Registration and Certification), monitoring the registered entities for compliance with reliability standards (Compliance Monitoring), determining and reporting to NERC violations of reliability standards by registered entities (Enforcement), and ensuring correction of non-compliance and violations (Mitigation of Violations). Texas RE maintains processes and procedures for data gathering, reporting, investigating, auditing, assessing, penalizing and sanctioning violators, and mitigating non-compliance.

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Because the CMEP is still a relatively new program, Texas RE continues to develop policies and procedures to support the evolving requirements that are developed at the national level. Texas RE will continue to review its organizational structure, processes, procedures and document management with the intent to continuously improve the quality and timeliness of its

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work while also controlling the cost of compliance whenever possible. ~~The reliability of the BPS always remains the unquestionable number one priority of the organization.~~

In 2010, Texas RE is developing a software tool (Texas RE Compliance and Enforcement Data Management System) to allow Texas RE employees to efficiently and flexibly view, analyze, and retrieve Texas RE registered entity compliance and enforcement information (by registered entity, registered function, date, compliance monitoring process, technical feasibility exception request, settlement agreement, violation, etc.). The tool should increase the efficiency of compliance and enforcement personnel locating and analyzing relevant compliance and enforcement information as needed for performance of their duties. This tool will ultimately interface with the Texas RE document management system. This is a cost impact not included in the 2010 Approved Budget of Original Texas RE.

### Organization Registration and Certification Program Description and Functions

Texas RE is responsible for identifying and registering the owners, operators, and users of the BPS as registered entities in the ERCOT region per Section 500 of the NERC ROP. These registered entities are responsible for complying with all applicable reliability standards. Texas RE must maintain an accurate registration list of all entities, their contact personnel and the business relationships, as well as managing the Joint Registered Organization agreement process.

Texas RE has ~~246214~~ registered entities representing ~~334335~~ functions as of ~~May 15~~November 30, 2009. The list of registered entities in the ERCOT region continues to evolve and currently includes:

- ~~442110~~ Generator Owners (GO)
- ~~7779~~ Generator Operators (GOP)
- 24 Transmission Planners (TP)
- 29 Transmission Owners (TO)
- ~~4346~~ Distribution Providers (DP)
- ~~4240~~ Purchasing Selling Entities (PSE)
- 1 entity – ERCOT ISO – with seven (7) functional registrations: Transmission Operator, (TOP), Reliability Coordinator, (RC), Balancing Authority, (BA), Planning Authority, (PA), Resource Planner, (RP), Transmission Service Provider, (TSP), and Interchange Authority (ERCOT ISO/IA)

Texas RE ~~created the~~has a Stakeholder Management Department ~~in 2008 as the primary organization in Texas RE~~ with responsibility for registration, certification, training, communications, reporting, document management and reliability assessments ~~(discussed later). The plan was to provide.~~ This provides organizational focus for ~~Stakeholder~~stakeholder management and services. ~~In practice in 2009, staffing levels have not been adequate to~~

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~~properly manage registration and certification in a timely fashion and some dissatisfaction was expressed by registered entities in the 2009 NERC survey.~~

~~In December 2008,~~ Texas RE will continue to use the compliance portal ~~launched its portal.~~ ~~The portal~~ by Original Texas RE in 2008, which allows registered entities to update or modify contact information and to submit self-certification response electronically. However, extracting data from the portal for submission to NERC continues to require manual intervention and quality control to validate entity changes. Texas RE has planned improvements for the portal to address issues such as reporting, and NERC is working toward completing its portal to allow a more efficient submission of this information. The updated Texas RE and NERC portals should be intended to reduce some of the administrative burdens on this program.

~~The management of Joint Registration Organizations (JRO) agreements adversely impacted work load in 2009 as this work has taken significant attention from staff to coordinate and approve. In addition, the~~ The implementation of the modified LSE registration criteria in 2008 resulted in significant challenges in the ERCOT region due to the unique market design of the ERCOT region (including competitive markets and a single Balancing Authority). ~~To avoid gaps, overlaps and registration appeals, Texas RE has spent approximately six (6) months working with stakeholders to obtain stakeholder feedback and facilitate a JRO design for LSE registration that eliminates all gaps, minimizes overlap, and reduces potential registration appeals. This process has been extremely beneficial with respect to improved communications and coordination with registered entities and is planned to be used again should a similar problem arise. A number of ERCOT region stakeholders have now agreed to a Joint Registration Organization (JRO) solution for the Load Serving Entity (LSE) function in the ERCOT region which should help to avoid gaps and overlaps and reduce the number of required registration appeals. The JRO has an effective date of January 1, 2010. Texas RE anticipates that most of the entities needed for registration as LSEs in the ERCOT region will participate in the LSE JRO, but it believes there might be some registration disputes by entities that do not participate in this JRO. Texas RE will need to register all LSEs that do not participate in the JRO.~~ Texas RE anticipates that the LSE JRO will result in a small increase in newly registered entities and a more significant increase in registered functions for existing entities. This reflects a change in assumptions from the 2010 Approved Business Plan and Budget, but Texas RE is not seeking additional resources for this area at this time.

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Registration work is expected to remain at the current level ~~(which is higher than anticipated for 2009)~~ through 2010 due to on-going registered entity changes (changes in business names, mergers, acquisitions, asset sales, and reorganizations) and a possible JRO for the Transmission Operator (TOP) function (which could require TOP certification audits), ~~and anticipated participation in national discussions regarding modifications or additions to the Statement of Registry Criteria (such as LSE) and registered entity functions or responsibilities, to ensure that the issues unique to the ERCOT region are properly considered.~~

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Registration disputes also have the potential to adversely impact work load in the registration area. ~~Texas RE should finalize its second significant registration dispute in 2009.~~ The time expended by Original Texas RE on each registration appeal (none of which are currently pending) has been significant. Texas RE anticipates that registration disputes should reduce

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over time once the NERC functions and registration criteria stabilize, but Texas RE anticipates possible registration disputes in the LSE and TOP areas in 2010. This budget anticipates no additional significant changes in registration criteria in 2010.

~~Stakeholder Management has remained relatively constant in 2009 and is adequately staffed. Stakeholder Management has a records coordinator who is helping to organize and maintain the records and procedures that are important to Texas RE's internal compliance and enforcement case management. Texas RE plans to install document management software in late 2009, which will require transitioning of existing files and revisions to internal procedures but is expected to enable Texas RE to more efficiently manage documents and evidence, even as the volume of evidence maintained increases.~~

The extensive reporting requirements for NERC, FERC, and the Texas RE board continue to remain higher and more challenging than expected. Texas RE anticipates that this could reduce somewhat, but, as a fairly new enterprise that is trying to achieve consistency among eight regional entities and NERC, Texas RE anticipates that it will need to continue to expect meet extensive reporting obligations through 2010.

~~To improve the organization's ability to address the dissatisfaction with timely registration responses, the ongoing support of the registration and certification process, including JROs, appeals and coordination with NERC and the other regions, Texas RE is planning to add 1.0 staff (.85 FTEs Statutory, .15 FTEs Non-statutory) to Stakeholder Management in 2010.~~

Compliance Monitoring and Enforcement Program Description and Functions

Through a rigorous program of monitoring, audits, assessments, investigations, mitigation activities, and the imposition of penalties and sanctions for non-compliance with reliability standards, Texas RE strives to maintain a high level of reliability in the ERCOT region BPS. Ensuring the reliable operation of the BPS benefits all owners, operators, and users of the BPS in the ERCOT region.

In 2008, Texas RE divided its compliance staff into a Compliance Audit group and a Compliance Enforcement group in order to provide separation between the audit the other compliance and enforcement processes.

Texas RE uses a total of eight (8) monitoring and investigation processes to collect information to confirm compliance or a violation with NERC Reliability Standards:

1. Compliance Audits,
2. Self-Certifications,
3. Spot Checking,

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4. Compliance Violation Investigations (CVI),
5. Self-Reporting,
6. Periodic Data Submittals,
7. Exception Reporting,
8. Complaints.

**Compliance Audit**

Texas RE audits the reliability standards on a recurring basis using an approved audit plan coordinated with NERC and the other regions. Texas RE also augments the audit schedule based on regional needs. The Compliance Audit schedule follows a three or six-year cycle, depending on the entity's registration, and an audit report is issued for each audit.

~~In any year that a registered entity does not receive a Compliance Audit addition, in accordance with the NERC CMEP Implementation Plan, Texas RE requires ~~the~~each registered entity to complete a compliance Self-Certification using electronic forms developed in coordination with NERC and distributed by Texas RE-, regardless of whether the registered entity has had a compliance audit in that year.~~ The entity must certify its compliance or non-compliance with each designated measure and submit the Self-Certification form to the Texas RE by the date specified in Texas RE's request. Texas RE may require registered entities to also self-certify their compliance with reliability standards at other times as well. (This paragraph reflects a change in policy adopted subsequent to the submission of the 2010 Approved Budget.)

Texas RE's Compliance Audit group performs Spot Checks of registered entities to 1) confirm compliance certified on Self-Certifications, 2) follow up on Self Reports and Periodic Data Submittals, and 3) follow up on complaints, events, or other indications of non-compliance. Texas RE may perform Spot Checks by telephone, site visit, or a data or document request. Deficiencies found in Self-Certifications and Spot Checks are treated as if they were audit findings of violations.

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

The current plan for Texas RE is to support the 2010 Critical Infrastructure Protection (CIP) audit with the Compliance Audit staff. CIP experts will be staffed in the CIP budget; however, Texas RE intends to augment the CIP audit team with experienced auditors from the Compliance audit team in 2010. Texas RE has only one (1) registered entity that is required to be ~~auditably compliant~~Auditably Compliant with CIP 002 – 009 prior to January 1, 2011, but Texas RE plans to perform 2010 validation and testing of CIP methodologies for CIP 002 via a minimum of six (6) CIP Spot Checks of the 41 requirements contained in the reliability standards CIP 002 – 009. (The CIP FTEs are discussed in the Critical Infrastructure Information section.)

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Texas RE plans to add 1.0 staff (.85 FTEs Statutory, .15 FTEs Non-statutory) auditor to the Compliance Auditing department to address the increase in audit work load from the organic growth in regular audits and to support CIP audits and spot checks in 2010. This is in addition to the CIP experts and staff to support the TFE processing discussed in a later section.

Texas RE has a single Table 1 entity, ERCOT ISO, due to its registration as the sole TOP, BA and RC in the ERCOT Region. Texas RE scheduled the spot check in 2009 for this entity covering the thirteen requirements initially applicable to Table 1 entities. Texas RE's 2010 plan therefore does not include additional mandatory spot checks of these thirteen requirements (as is the case in most other Regions). In the latter half of 2010, Texas RE has budgeted for approximately 10 possible event-driven spot checks of CIP requirements for Table 3 entities that will be in the "Compliant" stage of the CIP implementation plan. The budget also includes a planned ERCOT ISO audit for the remaining 28 CIP-002 through 009 requirements not included in this year's spot check, after July 1, 2010 when these requirements become "Auditably Compliant" for Table 1 entities under the implementation plan. It also includes a spot check for the single BA's compliance with BAL-003, which was adopted after the 2010 Approved Budget was submitted.

### Compliance Enforcement

Texas RE has implemented a separate Compliance Enforcement group that processes alleged violations originating from audits, spot-checks, self-certifications, complaints, self reports, CIQs and CVIs. The Compliance Enforcement program activities include reviewing all potential alleged violations from any of the eight (8) defined processes, preparing and submitting notices of alleged violations, preparing Notices of Confirmed Violations, assisting NERC with Notices of Penalties, and managing settlement negotiations and hearings associated with contested violations. This group also reviews all mitigation plans and must confirm completion of all mitigation plans not verified during audit, using Spot Checks, when necessary.

Once a potential alleged violation is identified from any compliance monitoring process, the Compliance Enforcement group may begin a Compliance Inquiry (CIQ), Compliance Violation Investigation (CVI), or perform a Spot Check to gather additional information to assist with the final determination of a potential violation. A CIQ is initiated as an informal, non-public review of facts, circumstances, and information that is conducted to determine if a more formal CMEP activity (such as a Spot Check or CVI) should be initiated. The CVI process is a detailed and lengthy process used for the more serious or complicated potential violations. The Spot Check is a very efficient process to gather information to reach a final determination of a potential violation.

Documentation requirements for all Compliance Enforcement program activities and processes increased during 2009 to support due process and to address all NERC and FERC-required improvements. Texas RE expects the Compliance Enforcement program activities to continue to increase in 2010 due to the level of complexity to reach violation determination and penalty calculation.

Texas RE also anticipates additional work to support enforcement appeals. Since no significant penalties have yet been approved, there have not been any significant appeals in the ERCOT region. Texas RE is staffing to ensure that it will be prepared for 1 large or 2 smaller enforcement appeals.

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Texas RE plans to add an additional 1.0 staff (.85 FTEs Statutory, .15 FTEs Non-statutory) in 2010 to accommodate the work load in Compliance Enforcement.

### 2010 Key Assumptions

#### Organization Registration and Certification

- Additional JRO workload due to LSE and ~~possible~~ TOP registrations.
- Certification ~~audit~~ audits for a maximum of 4 ~~new~~ TOPs (registered by JRO) might be performed.
- A maximum of two small to medium or one large registration dispute will occur in 2010. (This is a new assumption not included in the 2010 Approved Business Plan and Budget of Original Texas RE.)
- No additional NERC functions will be added or substantially modified by or during 2010.
- The Texas RE and NERC Portals will be fully functional and supporting electronic reporting of registration information to NERC by late 2010.
- Document management software will be installed in ~~2009~~ mid-2010 and fully operational ~~in by late~~ 2010.

#### Compliance Audit

- Audits will require an average of three (3) full days for the team to conduct the audit, with additional time required for preparation of audit notification, review of submitted responses prior to the audit and completion of the audit reports, ~~similarly similar~~ to the audits performed by Original Texas RE in 2009.
- Spot checks of requirements will be incorporated in the audit team schedule based on system events, self-certification results and complaints. A maximum of 20 entities will have a spot check, (including the ~~six (6)~~ ten (10) Spot checks of CIP 002 – 009 standards listed below) conducted in the second half of the year.
- Develop and implement the Texas RE Compliance and Enforcement Data Management System – this is a new assumption not reflected in the 2010 Approved Budget of Original Texas RE.
- NERC will not lead audits or other compliance activities of ERCOT ISO after implementation (which is a new assumption not reflected in the 2010 Approved Budget).

#### Compliance Enforcement

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- The number of alleged violations in the region will remain fairly constant in 2010.
- Have one (1) large or two (2) small-to-medium contested enforcement cases.
- Conduct 2 Compliance Violation Investigations.
- Conduct 20 detailed analyses of incidents, system disturbances, and events.
- Analyze and investigate 10 Complaints.
- Develop and implement the Texas RE compliance management data management system.
- Continue to work with NERC and other regional entities to improve consistency in processing violations and applying penalties for Registered Entities with operations in multiple regions.

### 2010 Goals and Key Deliverables

#### Organization Registration and Certification

1. Maintain an accurate registration list of all owners, operators, and users of the BPS by establishing a schedule to verify entity registration and contact information.
2. Provide updated registered entity information to NERC and appropriate government authorities.
3. Participate in development of registration criteria, procedures, policies and databases with NERC and FERC, and implement and communicate changes as necessary.
4. Provide support for all registration appeals.
5. Implement organization certification in accordance with NERC processes, some of which are ~~still~~ under development —or revision, and conduct required certification audits, if necessary.
6. Maintain processes and procedures for registration and certification activities that are required by the certification standards.
7. Review and improve procedures to improve communications with registered entities
8. Achieve significant improvement in responsiveness and add more focus on regional consistency.
9. Respond to requests and special reports from NERC/FERC and the board.
10. Continue to improve the Portal to facilitate automated communications with registered entities.
11. ~~Maintain the Help~~ implement and maintain an electronic document management system to more efficiently preserve work papers and evidence.

#### Compliance Enforcement

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1. Review and process or dismiss all alleged violations in a more timely fashion.
2. Manage all settlements and contested cases to completion, as efficiently as possible.
3. Coordinate with and provide assistance to the Legal Department on settlements, appeals and contested cases.
4. Conduct required Compliance Violation Investigations.
5. Conduct compliance analysis of all significant events and other system disturbances.
6. Analyze and investigate all Complaints.
7. Achieve reasonable timelines in performing each of the compliance monitoring and enforcement processes.
8. Achieve reasonable timelines in processing violations, penalties and settlement agreements (less than 100 days).

### Audits

1. Conduct approximately 52 audits, 18 at the entity's site and the remaining 34 at ~~TRE's~~Texas RE's offices, per the 2010 schedule, Texas RE procedures and the provisions of the NERC CMEP.
2. Perform Spot Checks, including a sample of entities for spot checks of the CIP standards.
3. Continue to work with other Regional Entities to improve auditing consistency and reduce the cost of audits for Registered Entities with operations in multiple regions.
4. Complete a review of policies and procedures with the goal of improving the clarity of communications with Registered Entities, to determine how to mitigate the cost of compliance without impacting reliability, and meeting compliance with NERC ROP modifications and NERC guidance.
5. Prepare an overall CMEP implementation plan for the 2011 program by November 1, 2010, including recommendations from the FERC and upcoming NERC audit of Texas RE.

### Funding Requirements — Explanation of Increase (Decrease) ~~Over 2010 Approved~~ Budget

The ~~Compliance~~ compliance funding ~~requirements~~requirement reflects an increase of ~~\$3,439K~~year-1,679K over ~~year due to 2009 being lower the Original Texas RE's 2010 Approved Budget~~ because ~~Texas RE used unspent prior year funds to reduce the 2009 assessment; of Texas RE's required start up costs and in 2010, increased administrative operational expenses. These increased indirect program expenses are fully were allocated to the direct program areas. Additionally, there are personnel increases (including those associated with supporting TFE evaluations) proposed for 2010 as detailed below.~~

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Compliance will have increased personnel expenses as a result of adding 6.0 staff (5.55 FTEs Statutory, .45 FTEs Non-statutory) and additional management, legal, IT, and other personnel work programs on compliance activities.

### Organization Registration and Certification

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

### Compliance Enforcement

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

### Audits

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

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

## Technical Feasibility Exceptions

### **TFE Program Scope and Description**

The CIP standards allow for registered entities to request TFEs to certain of the standard requirements on the grounds of technical feasibility or technical limitations. NERC issued initial procedures for the processing ~~theof~~ TFEs, but there is still great uncertainty regarding the

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workload requirements and longevity of the TFE review and evaluation process. To date, 48 ERCOT Region registered entities have declared critical cyber assets, and each of these registered entities must be audited against the CIP standards requirements. Using the information available, including the NERC guidance, Texas RE has used its best efforts to estimate the workload requirements for its review and evaluation of TFEs in the ERCOT region, including coordination with NERC and the other Regional Entities, in accordance with its below-listed assumptions. Texas RE estimates that each of the registered entities with critical cyber assets will submit an average of five (5) TFEs (totaling 240 TFEs), and that these 240 TFEs will be screened and verified over the next two years (2010-2011), or 120 TFEs per year.

Texas RE estimates that screening of each of these TFEs will require 16 hours of staff labor and the verification will require 34 hours of staff labor. Additionally, there will be approximately 6 hours of staff support required for development and maintenance of online forms, data management, and to monitor periodic reporting of TFE status. Therefore the total estimated impact is 56 hours per TFE. The total effort given these assumptions is 6,720 hours in 2010 (6,000 hours for engineering/information technology/legal labor (3.6 FTEs) and 720 hours of support labor (0.4 FTEs), or a total of 4 FTEs). This FTE increase would equate to approximately \$651K in additional expense plus cash reserves of approximately \$133K. Texas RE acknowledges, however, that the estimated workload for the TFE evaluation is based upon many assumptions that cannot yet be verified. For this reason, Texas RE seeks to add only \$400K, for 3 FTEs for TFE evaluation activities at this time.

Texas RE will monitor the workload actually required to process the TFEs as they are submitted. If the total number of TFEs or the actual workload required for processing the TFEs significantly exceeds the \$400K budget estimate, Texas RE would initially use its cash reserves and will seek a 2010 budget supplement. If the total number of TFEs is significantly less than the above estimate or if the workload for completing TFEs is significantly less than the amount budgeted, any savings will be applied to a future budget year.

The estimates above do not include staff enforcement time required if violations are assessed during the TFE evaluation. Should a large number of violations be assessed as a result of TFE evaluations, this would have a significant impact on enforcement staff and additional resources will be required.

### TFE Program Key Assumptions

- Texas RE will perform TFE evaluations for registered entities in the ERCOT Region and will coordinate with the other Regions to ensure consistent treatment of similar requested TFEs.
- TFE processing will require a preliminary screening of the TFE for completeness and reasonableness for acceptance on an interim basis. Screening is assumed to be completed within 60 days of receipt by the Regional Entity-regional entity.

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- Texas RE will conduct a thorough review of the TFE and proposed mitigating measures, and will prepare its justification for approval or denial of the TFE within 360 days of the initial submittal of the TFE, unless otherwise extended by the ~~Regional Entity~~regional entity with the concurrence of NERC, based on criteria provided by NERC.
- The initial screening and thorough review of each TFE will be conducted off-site (not at the office of the Registered Entity and normally at the Texas RE offices) and Registered Entities will electronically submit all documentation required to review TFEs, including Critical Energy Infrastructure Information (CEII) associated with TFEs, to Texas RE. Registered entities will submit the information through either (1) encrypted email or (2) encrypted or password protected CDs, DVDs, or other mobile storage devices. Texas RE will ensure that confidential data and information received, including Critical Energy Infrastructure Information (CEII), are secured, in accordance with Section 1500 of NERC Rules of Procedure. Unless and until Texas RE can confirm that its servers are appropriately secure, Texas RE will maintain all CEII on password protected or encrypted mobile storage devices which are maintained in locked fire-proof filing cabinets, in accordance with its Handling Guidelines for CEII Corporate Procedure, and Texas RE will only view registered entity CEII on designated secured (password protected) computers that are not network-connected to either the Internet or the Texas RE corporate local area network.
- If a TFE is found to be deficient in the initial screening or during the thorough review, the registered entity will be provided 30 days to remedy the deficiency. If the registered entity fails to comply with the mitigation measures in its own TFE, the entity may be referred to Texas RE enforcement for processing of a possible violation. Registered entities will have a 'safe harbor' from enforcement while a TFE is pending acceptance by Texas RE and while the entity is performing in accordance with the TFE mitigation plan.
- TFEs are associated with and permitted for only CIP-005 requirements 2.4, 2.6, 3.1, and 3.2; ~~CIP-006 requirement 1.1;~~ and CIP-007 requirements 2.3, 4, 5.3, 5.3.1, 5.3.2, 4, 4.1, 5.3.3, 6, and 6.3.
- If a registrant refuses to submit materials or documents due to CEII concerns and requests that Texas RE only review materials on-site, Texas RE will not approve the request, unless the registered entity is prohibited by law from disclosing information designated as Confidential Information, Classified National Security Information, NRC Safeguards Information and/or Protected FOIA Information to any person who is not an Eligible Reviewer (such as, for example, the restriction on access to Classified National Security Information specified in Section 4.1 of Executive Order No. 12958, as amended). In such an instance, the TFE Request shall identify the Confidential Information, Classified National Security Information, NRC Safeguards Information and/or Protected FOIA Information that is subject to such restrictions on disclosure and shall identify the criteria which a person must meet in order to be an Eligible Reviewer of the Confidential Information, Classified National Security Information, NRC Safeguards Information and/or Protected FOIA Information. The registered entity must submit all information that is not so designated.
- Registered entities will be required to provide quarterly updates on the status of TFEs compared to mitigation plan milestones. Texas RE will be expected to review the completion of a TFE in a manner similar to a spot check.

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- TFEs will be grouped by common equipment/device types. Therefore, if there is one vulnerability that affects several types of devices, of which an entity has hundreds of such devices, Texas RE assumes that an entity will submit a single TFE- for such vulnerability.
- NERC will provide review, input, and visibility (such as through a shared national database for use by the Regions) for consistency of the TFEs and will also develop common TFEs to provide better consistency and efficiency across Regions.

### Staffing Summary to Support TFE Processing

The TFE processing and evaluation will require ~~four additional~~three (3.0) Compliance FTEs, as follows:

- ~~Add two~~Two (2.0) FTEs ~~to the Compliance Staff~~ for TFE screening and verification, and mitigation plan review and follow-up.
- ~~Add one~~One (1.0) FTE ~~to the Compliance Staff~~ for TFE data base administration and tracking.

At the end of the two-year period (after 2011), Texas RE will better understand the scope of the CIP compliance activity (including overflow work associated with balance of nuclear plant audits) and will evaluate staffing needs going forward. Texas RE believes the three (3.0) new TFE-related staff will transition into assuming responsibility for additional work associated with CIP audits, spot checks, investigations and enforcement activities, as well as follow-up on questions and concerns from registered entities.

### ~~2010 Overview of TFE Cost Impacts~~

~~Based on current assumptions that cannot yet be verified, Texas RE's initial analysis has indicated that \$784K will be needed for TFE processing in 2010. However, because of the many uncertainties associated with TFE processing, Texas RE seeks to add only \$400K for TFE processing in 2010 at this time.~~

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Section B — 2010 Regional Entity Budget

**Compliance Enforcement and Organization Registration and Certification Program**

Funding sources and related expenses for the compliance enforcement and organization registration and certification section of the 2010 business plan are shown in the table below.

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Section B — 2010 Regional Entity Budget

<b>Statement of Activities</b>					
<b>2009 Budget &amp; Projection, and 2010 Budget</b>					
<b>Compliance and Organization Registration and Certification</b>					
	2009	2009	Variance	2010	Variance
	Budget	Projection	2009 Projection	Budget	2010 Budget
			v 2009 Budget		v 2009 Budget
			Over(Under)		Over(Under)
<b>Funding</b>					
<b>ERO Funding</b>					
ERO Assessments	\$ 1,628,935	\$ 1,628,935	\$ -	\$ 5,067,667	\$ 3,438,733
Penalty Sanctions	-	-	-	-	-
<b>Total ERO Funding</b>	<b>\$ 1,628,935</b>	<b>\$ 1,628,935</b>	<b>\$ -</b>	<b>\$ 5,067,667</b>	<b>\$ 3,438,733</b>
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
<b>Total Funding</b>	<b>\$ 1,628,935</b>	<b>\$ 1,628,935</b>	<b>\$ -</b>	<b>\$ 5,067,667</b>	<b>\$ 3,438,733</b>
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	\$ 1,164,106	\$ 1,221,917	\$ 57,811	\$ 2,037,418	\$ 873,312
Payroll Taxes	93,128	97,661	4,532	161,372	68,244
Benefits	134,510	100,088	(34,422)	221,580	87,070
Retirement Costs	163,258	161,664	(1,594)	289,434	126,175
<b>Total Personnel Expenses</b>	<b>\$ 1,555,003</b>	<b>\$ 1,581,331</b>	<b>\$ 26,327</b>	<b>\$ 2,709,803</b>	<b>\$ 1,154,800</b>
<b>Meeting Expenses</b>					
Meetings	\$ -	\$ 634	\$ 634	\$ 4,000	\$ 4,000
Travel	73,199	85,850	12,651	154,664	81,465
Conference Calls	-	-	-	-	-
<b>Total Meeting Expenses</b>	<b>\$ 73,199</b>	<b>\$ 86,484</b>	<b>\$ 13,285</b>	<b>\$ 158,664</b>	<b>\$ 85,465</b>
<b>Operating Expenses</b>					
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-	-	-	-	-
Office Costs	600	2,630	2,030	12,062	11,462
Professional Services	-	22,108	22,108	428,660	428,660
Miscellaneous	-	171	171	15,561	15,561
Depreciation	-	-	-	141,107	141,107
<b>Total Operating Expenses</b>	<b>\$ 600</b>	<b>\$ 24,909</b>	<b>\$ 24,309</b>	<b>\$ 597,389</b>	<b>\$ 596,789</b>
<b>Total Direct Expenses</b>	<b>\$ 1,628,802</b>	<b>\$ 1,692,723</b>	<b>\$ 63,921</b>	<b>\$ 3,465,857</b>	<b>\$ 1,837,055</b>
<b>Indirect Expenses</b>	<b>\$ 2,404,881</b>	<b>\$ 1,722,893</b>	<b>\$ (681,988)</b>	<b>\$ 1,438,898</b>	<b>\$ (965,983)</b>
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total Expenses</b>	<b>\$ 4,033,683</b>	<b>\$ 3,415,617</b>	<b>\$ (618,067)</b>	<b>\$ 4,904,755</b>	<b>\$ 871,072</b>
<b>Change in Assets</b>	<b>\$ (2,404,749)</b>	<b>\$ (1,786,682)</b>	<b>\$ 618,067</b>	<b>\$ 162,912</b>	<b>\$ 2,567,661</b>
<b>Fixed Assets</b>					
Depreciation	\$ -	\$ -	\$ -	\$ (141,107)	\$ (141,107)
Computer & Software CapEx	-	-	-	274,237	274,237
Furniture & Fixtures CapEx	-	-	-	15,215	15,215
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
<b>(Incr)Dec in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (148,345)</b>	<b>\$ (148,345)</b>
Allocation of Fixed Assets	\$ (173,365)	\$ (173,365)	\$ -	\$ (14,568)	\$ 158,797
<b>Change in Fixed Assets</b>	<b>\$ (173,365)</b>	<b>\$ (173,365)</b>	<b>\$ -</b>	<b>\$ (162,912)</b>	<b>\$ 10,452</b>
<b>TOTAL CHANGE IN ASSETS</b>	<b>\$ (2,578,113)</b>	<b>\$ (1,960,047)</b>	<b>\$ 618,067</b>	<b>\$ -</b>	<b>\$ 2,578,113</b>

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Section B — 2010 Regional Entity Budget

<b>Statement of Activities</b>			
<b>2010 Approved Budget &amp; 2010 Amended Budget</b>			
<b>Compliance and Organization Registration and Certification</b>			
	2010	2010	2010
	Approved	Adjustment	Amended
	Budget	to the Approved	Budget
	Budget	Budget	Budget
<b>Funding</b>			
<b>ERO Funding</b>			
ERO Assessments	\$ 5,067,667	\$ 1,678,562	\$ 6,746,229
Penalty/Sanctions	-	-	-
<b>Total ERO Funding</b>	<b>\$ 5,067,667</b>	<b>\$ 1,678,562</b>	<b>\$ 6,746,229</b>
Membership Dues	-	-	-
Testing Fees	-	-	-
Services & Software	-	-	-
Workshops	-	-	-
Interest	-	-	-
Miscellaneous	-	-	-
<b>Total Funding</b>	<b>\$ 5,067,667</b>	<b>\$ 1,678,562</b>	<b>\$ 6,746,229</b>
<b>Expenses</b>			
<b>Personnel Expenses</b>			
Salaries	\$ 2,037,418	-	\$ 2,037,418
Payroll Taxes	161,372	-	161,372
Benefits	221,580	-	221,580
Retirement Costs	289,434	-	289,434
<b>Total Personnel Expenses</b>	<b>\$ 2,709,803</b>	<b>\$ -</b>	<b>\$ 2,709,803</b>
<b>Meeting Expenses</b>			
Meetings	\$ 4,000	-	\$ 4,000
Travel	154,664	-	154,664
Conference Calls	-	-	-
<b>Total Meeting Expenses</b>	<b>\$ 158,664</b>	<b>\$ -</b>	<b>\$ 158,664</b>
<b>Operating Expenses</b>			
Consultants & Contracts	\$ -	-	\$ -
Office Rent	-	-	-
Office Costs	12,062	-	12,062
Professional Services	428,660	-	428,660
Miscellaneous	15,561	-	15,561
Depreciation	141,107	-	141,107
<b>Total Operating Expenses</b>	<b>\$ 597,389</b>	<b>\$ -</b>	<b>\$ 597,389</b>
<b>Total Direct Expenses</b>	<b>\$ 3,465,857</b>	<b>\$ -</b>	<b>\$ 3,465,857</b>
<b>Indirect Expenses</b>	<b>\$ 1,438,898</b>	<b>\$ 970,754</b>	<b>\$ 2,409,652</b>
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total Expenses</b>	<b>\$ 4,904,755</b>	<b>\$ 970,754</b>	<b>\$ 5,875,509</b>
<b>Change in Assets</b>	<b>\$ 162,912</b>	<b>\$ 707,808</b>	<b>\$ 870,720</b>
<b>Fixed Assets</b>			
Depreciation	\$ (141,107)	\$ -	\$ (141,107)
Computer & Software CapEx	274,237	100,000	374,237
Furniture & Fixtures CapEx	15,215	-	15,215
Equipment CapEx	-	-	-
Leasehold Improvements	-	-	-
<b>(Incr)Dec in Fixed Assets</b>	<b>\$ (148,345)</b>	<b>\$ (100,000)</b>	<b>\$ (248,345)</b>
Allocation of Fixed Assets	\$ (14,568)	\$ (607,808)	\$ (622,375)
<b>Change in Fixed Assets</b>	<b>\$ (162,912)</b>	<b>\$ (707,808)</b>	<b>\$ (870,720)</b>
<b>TOTAL CHANGE IN ASSETS</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

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## Explanations of Variances – Amended 2010 Budget versus 2009 Approved 2010 Budget

### Funding Sources

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

### Personnel Expenses

- ~~Personnel costs are increasing \$1,155K for 2010 due to increasing staff by 6.00 (5.55 FTEs Statutory, .45 FTEs Non-statutory) in this area to enhance functional performance (improved response times and increased effectiveness); as well as providing the resources required by the TFE evaluation process. Also, there are additional management, legal and project personnel costs that are associated with these functions that are also reflected in the total FTEs (as reported on table 2 of Section B) for these programs.~~

- N/A

### Meeting Expenses

- ~~Meeting expenses are increasing year-over-year primarily related to travel expenses. The length of audits has been extended resulting in a 16% increase in travel \$15K. Additionally, there are a significant number of NERC working group meetings that are planned based on the 2009 meeting schedule, expected increase \$59K. The additional working group meetings are expected to result in a more consistent compliance implementation across the regions. TFE staff travel is included in the budget to support training; meetings and any required travel for the TFE process \$8K. N/A~~

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### Operating Expenses

- ~~Professional services expenses are increasing in 2010 due to the direct-costing of external legal (for enforcement hearings and registration appeals—\$257K) and other professional service expenses directly attributed to hosting Texas RE's portal \$160K for the benefit of the program. To support the TFE process, there is \$12K for recruiting, and \$3K for office costs.~~
- ~~Additionally, there is approximately \$138K in depreciation expense attributed to the Texas RE Portal for 2010, as well as an additional \$3K for TFE cubicle depreciation. Please see Fixed Asset Additions for more detail.~~

- N/A

### Indirect Expenses

- ~~Indirect expenses are decreasing \$966K year-increasing by \$971K over-year, through the identification of direct expenses that were previously budgeted in Original Texas RE's 2010 Approved Budget, due to the start-up costs and the increased administrative services expenses of Texas RE. These increased indirect expenses were allocated to the direct statutory programs on the basis of proportional numbers of FTE employees in each statutory program. The result is a total of \$2,410K for indirect expenses for 2010.~~

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**Other Non-Operating Expenses**

- N/A

**Fixed Asset Additions**

- ~~The majority of this capital expense is attributed to Texas RE Portal projects and enhancements in 2010, \$274K. The projects such as, Portal Project – System Management User Interfaces: Forms, Security, Notifications/Emails, Portal Switch Lookup, Master Account Summary Report (TRE Registration), CIP Forms 2010 (CIP annual update), Portal Communications GUI (allows non-developers to administer portal home page announcements), and an Audit Tracking Module (TRE Compliance Audits) will enhance Texas RE's ability to perform its delegated responsibilities by utilizing technology to enhance performance.~~
- ~~Texas RE will also need to expend approximately \$15K for cubicles and associated furniture for the additional FTEs related to TFE processing.~~
- -Fixed asset additions are increasing due to the allocation of the increased administrative services' fixed asset additions which are required for the start-up of Texas RE, in the amount of approximately \$608K. Also, there is a need to establish a Texas RE Compliance Monitoring and Enforcement Data Management System tool at a cost of \$100K. The result of these additions brings the total of fixed asset additions to \$871K (net of depreciation) for 2010.

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Section B — 2010 Regional Entity Budget

Training, Education, and Operator Certification Program

Training, Education, and Operator Certification Program Resources			
(in whole dollars)			
Increase(Decrease)	<del>2009</del> 2010 <u>Approved</u> Budget	2010 <u>Amended</u> Budget	
Total FTEs	0. <del>60</del> <u>97</u>	0.97	0. <del>37</del> <u>00</u>
Total Direct Expenses	<del>\$176,415</del> <u>\$328,735</u>	\$328,735	<del>\$152,320</del> <u>0</u>
Total Indirect Expenses	<del>\$99,243</del> <u>\$64,442</u>	<del>\$64,442</del> <u>\$107,918</u>	<del>(\$34,801)</del> <u>\$43,476</u>
Total Expenses	<del>\$275,658</del> <u>\$393,177</u>	<del>\$393,177</del> <u>\$436,653</u>	<del>\$117,518</del> <u>43,476</u>

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The Texas RE Training, Education, and Operator Certification program provides the education and training necessary to understand and operate the BPS, in accordance with NERC ROP Section 900. In 2010, the Texas RE Training program will develop materials for and plan to hold at least:

- Two (2) full-day Standards and Compliance workshops;
- One (1) additional workshop focusing on standards;
- Two (2) additional workshops focusing on CIP compliance.

In addition to the above workshops, Texas RE also intends to ~~continue to~~ coordinate and facilitate six (6) regular sessions of the ERCOT Operations Training Seminar in 2010. The purpose of this seminar is to refresh the understanding of operational fundamentals; introduce changes occurring to operational interfaces, equipment, systems, and processes; address the impact of market processes to system performance and operation; and address emerging issues in performance and system reliability. Texas RE will also ~~facilitates~~facilitate the ERCOT Operator Certification Program, including maintaining and updating the ERCOT Fundamentals Training Manual and administering the System Operator testing process.

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

Texas RE staff ~~participates~~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.

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

~~2010 Key Assumptions:~~

2010 Key Assumptions:

- Texas RE will develop and deliver two (2) Standards and Compliance workshops, two (2) CIP Compliance workshops and six sessions of the Operations Training seminar in 2010.
- Texas RE will develop and deliver one (1) Reliability Standards workshop in 2010.
- The Training, Education, and Operator Certification program will remain a Statutory function with the Operations Training Seminar revenues ~~partially~~ offsetting the majority of the seminar's expenses.

**2010 Goals and Key Deliverables:**

1. Develop two (2) full-day high quality 2010 Standards and Compliance workshops (approximately 125 stakeholders each)
2. Develop and deliver one (1) full-day Reliability Standards workshop
3. Develop and deliver two (2) full-day quality CIP workshops
4. Coordinate and host six (6) sessions of the four-day ERCOT region Operator Training seminar
5. Maintain a database for tracking seminar and workshop participants and feedback and use this feedback to continue to improve on future seminars and workshops

**Funding Requirements — Explanation of Increase (Decrease) over 2010 Approved Budget**

~~The Training, Education and Operator Certification funding requirements ~~reflects~~reflect an increase of \$~~247K~~ year ~~71K~~ over ~~year~~ the Original Texas RE's 2010 Approved Budget because Texas RE used unspent prior year funds to reduce the 2009 assessment; and in 2010, of the required start-up costs and increased administrative costs of Texas RE. These increased indirect program expenses are fullywere allocated to the direct program areas. Additionally, expenses associated with the Operations Training Seminar are increasing due to increases in the cost of the venue for the six (6) week seminar facilitated by Texas RE. The increase in costs from 2009 to 2010 for the OTS is expected to be \$110K year over year. This additional expense is expected to be offset by registration fees collected from OTS attendees. statutory programs on the basis of proportional numbers of FTE employees in each statutory program.~~

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**Section B — 2010 Regional Entity Budget**

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**Training, Education, and Operator Certification Program**

Funding sources and related expenses for the training, education, and operator certification section of the 2010 business plan are shown in the table below.

Section B — 2010 Regional Entity Budget

<b>Statement of Activities</b>					
<b>2009 Budget &amp; Projection, and 2010 Budget</b>					
<b>Training and Education</b>					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
<b>Funding</b>					
<b>ERO Funding</b>					
ERO Assessments	\$ 106,415	\$ 106,415	\$ -	\$ 213,829	\$ 107,414
Penalty Sanctions	-	-	-	-	-
<b>Total ERO Funding</b>	<b>\$ 106,415</b>	<b>\$ 106,415</b>	<b>\$ -</b>	<b>\$ 213,829</b>	<b>\$ 107,414</b>
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	70,000	174,029	104,029	180,000	110,000
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
<b>Total Funding</b>	<b>\$ 176,415</b>	<b>\$ 280,444</b>	<b>\$ 104,029</b>	<b>\$ 393,829</b>	<b>\$ 217,414</b>
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	\$ 52,608	\$ 76,339	\$ 23,731	\$ 81,122	\$ 28,514
Payroll Taxes	4,209	5,594	1,385	6,425	2,216
Benefits	5,524	7,747	2,222	8,834	3,310
Retirement Costs	7,628	9,673	2,044	11,511	3,883
<b>Total Personnel Expenses</b>	<b>\$ 69,969</b>	<b>\$ 99,352</b>	<b>\$ 29,383</b>	<b>\$ 107,893</b>	<b>\$ 37,924</b>
<b>Meeting Expenses</b>					
Meetings	\$ 105,000	\$ 154,928	\$ 49,928	\$ 220,000	\$ 115,000
Travel	1,446	1,700	254	-	(1,446)
Conference Calls	-	-	-	-	-
<del><b>Total Meeting Expenses</b></del>	<del><b>\$ 106,446</b></del>	<del><b>\$ 156,628</b></del>	<del><b>\$ 50,182</b></del>	<del><b>\$ 220,000</b></del>	<del><b>\$ 113,554</b></del>
<b>Operating Expenses</b>					
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-	-	-	-	-
Office Costs	-	270	270	-	-
Professional Services	-	-	-	-	-
Miscellaneous	-	646	646	842	842
Depreciation	-	-	-	-	-
<b>Total Operating Expenses</b>	<b>\$ -</b>	<b>\$ 916</b>	<b>\$ 916</b>	<b>\$ 842</b>	<b>\$ 842</b>
<b>Total Direct Expenses</b>	<b>\$ 176,415</b>	<b>\$ 256,896</b>	<b>\$ 80,481</b>	<b>\$ 328,735</b>	<b>\$ 152,320</b>
<b>Indirect Expenses</b>	<b>\$ 99,243</b>	<b>\$ 96,418</b>	<b>\$ (2,825)</b>	<b>\$ 64,442</b>	<b>\$ (34,801)</b>
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total Expenses</b>	<b>\$ 275,658</b>	<b>\$ 353,314</b>	<b>\$ 77,656</b>	<b>\$ 393,177</b>	<b>\$ 117,519</b>
<b>Change in Assets</b>	<b>\$ (99,243)</b>	<b>\$ (72,870)</b>	<b>\$ 26,373</b>	<b>\$ 652</b>	<b>\$ 99,895</b>
<b>Fixed Assets</b>					
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
<b>(Incr)Dec in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Allocation of Fixed Assets	\$ (7,154)	\$ (7,154)	\$ -	\$ (652)	\$ 6,502
<b>Change in Fixed Assets</b>	<b>\$ (7,154)</b>	<b>\$ (7,154)</b>	<b>\$ -</b>	<b>\$ (652)</b>	<b>\$ 6,502</b>
<b>TOTAL CHANGE IN ASSETS</b>	<b>\$ (106,397)</b>	<b>\$ (80,024)</b>	<b>\$ 26,373</b>	<b>\$ -</b>	<b>\$ 106,397</b>

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Section B — 2010 Regional Entity Budget

<b>Statement of Activities</b>			
<b>2010 Approved Budget &amp; 2010 Amended Budget</b>			
<b>Training and Education</b>			
	2010 Approved Budget	2010 Adjustment to the Approved Budget	2010 Amended Budget
<b>Funding</b>			
<b>ERO Funding</b>			
ERO Assessments	\$ 213,829	\$ 71,349	\$ 285,179
Penalty Sanctions	-	-	-
<b>Total ERO Funding</b>	<b>\$ 213,829</b>	<b>\$ 71,349</b>	<b>\$ 285,179</b>
Membership Dues	-	-	-
Testing Fees	-	-	-
Services & Software	-	-	-
Workshops	180,000	-	180,000
Interest	-	-	-
Miscellaneous	-	-	-
<b>Total Funding</b>	<b>\$ 393,829</b>	<b>\$ 71,349</b>	<b>\$ 465,179</b>
<b>Expenses</b>			
<b>Personnel Expenses</b>			
Salaries	\$ 81,122	-	\$ 81,122
Payroll Taxes	6,425	-	6,425
Benefits	8,834	-	8,834
Retirement Costs	11,511	-	11,511
<b>Total Personnel Expenses</b>	<b>\$ 107,893</b>	<b>\$ -</b>	<b>\$ 107,893</b>
<b>Meeting Expenses</b>			
Meetings	\$ 220,000	-	\$ 220,000
Travel	-	-	-
Conference Calls	-	-	-
<b>Total Meeting Expenses</b>	<b>\$ 220,000</b>	<b>\$ -</b>	<b>\$ 220,000</b>
<b>Operating Expenses</b>			
Consultants & Contracts	\$ -	-	\$ -
Office Rent	-	-	-
Office Costs	-	-	-
Professional Services	-	-	-
Miscellaneous	842	-	842
Depreciation	-	-	-
<b>Total Operating Expenses</b>	<b>\$ 842</b>	<b>\$ -</b>	<b>\$ 842</b>
<b>Total Direct Expenses</b>	<b>\$ 328,735</b>	<b>\$ -</b>	<b>\$ 328,735</b>
<b>Indirect Expenses</b>	<b>\$ 64,442</b>	<b>\$ 43,476</b>	<b>\$ 107,918</b>
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total Expenses</b>	<b>\$ 393,177</b>	<b>\$ 43,476</b>	<b>\$ 436,653</b>
<b>Change in Assets</b>	<b>\$ 652</b>	<b>\$ 27,874</b>	<b>\$ 28,526</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>
Allocation of Fixed Assets	\$ (652)	\$ (27,874)	\$ (28,526)
<b>Change in Fixed Assets</b>	<b>\$ (652)</b>	<b>\$ (27,874)</b>	<b>\$ (28,526)</b>
<b>TOTAL CHANGE IN ASSETS</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

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Section B — 2010 Regional Entity Budget

Explanations of Variances – 2010 Amended Budget versus ~~2009~~Approved 2010 Budget

**Funding Sources**

- Training, Education and Operator Certification is planned to be nearly 4639% self-funded in 2010 through registration fees from attendees of the OTS. The remaining 5461% of this program is funded through ERO assessments.

**Personnel Expenses**

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

**Meeting Expenses**

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

**Operating Expenses**

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

**Indirect Expenses**

- Indirect expenses are ~~reflecting a decline of \$35K year-over-year increasing by \$43K due to reductions in the the start-up costs and the increased administrative costs-expenses of Texas RE. The result is a total of \$108K for indirect expenses for 2010.~~

**Other Non-Operating Expenses**

- N/A

**Fixed Asset Additions**

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- There are no new direct fixedFixed asset additions for this program; however, there is a slightare increasing due to the allocation of the administrative services' fixed ~~assets~~asset expenditures which are required for the start-up of Texas RE, in the amount of approximately \$28K, bringing the total of fixed asset additions to \$29K for 2010.

## Reliability Assessment and Performance Analysis Program

Reliability Assessment and Performance Analysis Program Resources			
(in whole dollars)			
2009 <del>2010</del> Approved Budget		2010 Amended Budget	
Increase(Decrease)			
Total FTEs	2.20 <del>44</del>	2.44	0.24 <del>00</del>
Total Direct Expenses	\$365,180 <del>290,095</del>	\$290,095	(\$75,085) <del>\$0</del>
Total Indirect Expenses	\$372,419 <del>161,505</del>	\$461,505 <del>270,464</del>	(\$210,914) <del>\$108,959</del>
Total Expenses	\$737,599 <del>451,600</del>	\$451,600 <del>560,559</del>	(\$285,999) <del>\$108,959</del>

### Program Scope and Functional Description:

#### Reliability Assessment Reports

ERCOT ISO has traditionally assembled the data for and prepared all seasonal, annual long-term, and other required planning and reliability assessments for the ERCOT region, using ERCOT ISO planning staff and input from stakeholder technical experts. As the regional entity, Texas RE coordinates with ERCOT ISO regarding the timing of these assessments, and Texas RE reviews the assessments for completeness. Because Texas RE plans to continue to rely upon ERCOT ISO Planning staff for the research and preparation of these assessments, Texas RE's coordination and review of these assessments is a small portion of its 2010 budget.

#### Event Analysis

As Reliability Coordinator, ERCOT ISO monitors the system in real time and reports a variety of incidents and disturbances to Texas RE for its review and compliance analysis. These incidents and disturbances include Department of Energy and NERC reportable events, Emergency Electric Alert (EEA) implementation, special protection system activation, equipment outages and failures, underfrequency and undervoltage relay operation, and any failure to meet NERC requirements related to frequency control or transmission security.

Texas RE reviews all reported incidents and disturbances to determine if a compliance analysis is needed. If the initial review indicates that a standard might potentially have been violated, Texas RE performs a compliance analysis and obtains more information from the registered

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entity, as needed. If the compliance analysis indicates that further review, such as a CIQ, Spot Check, or CVI is justified, further analysis is performed as described under the CMEP description. If the initial review indicates that any Protocol might have been violated, Texas RE performs a Non-statutory compliance analysis as part of its Non-statutory activities.

Texas RE staff also attend ERCOT ISO reliability-based stakeholder committees, such as the Reliability & Operating Subcommittee (ROS), Performance Disturbance Compliance Working Group (PDCWG), Operations Working Group (OWG) and the Wind Operations Task Force (WOTF) to better understand the reliability issues and challenges for the ERCOT region and to provide comments from the Texas RE perspective when needed. Texas RE also regularly communicates with NERC staff regarding any reliability challenges of special interest in the ERCOT region (e.g. wind generation) to keep NERC apprised of risks, improvements, and on-going strategy.

On a monthly basis, Texas RE also calculates and reports on a variety of reliability performance metrics (e.g. Regional (ERCOT Protocol) measures and NERC Reliability Standards measures) to its Board of Directors. Texas RE also uses this information, when appropriate, to identify potential standards violations or declining reliability trends that need to be investigated.

### 2010 Key Assumptions:

### 2010 Key Assumptions:

- ERCOT ISO will continue to research, assemble data for, and prepare the seasonal, long-term, and other requested assessments, and Texas RE will coordinate the timing of and review such assessments (and make comments, if required) before submitting the assessments to NERC
- Review Texas RE will review approximately 80 reports of incidents, complaints, and disturbances

### 2010 Goals and Key Deliverables:

1. Increase Texas RE ~~will increase its~~ participation in the Regional Planning Group activities
2. Coordinate the communication of all reliability assessment-related information as requested by NERC (this is an additional goal not stated in the 2010 Approved Business Plan and Budget).
- 2-3. Timely review and submit all required assessments to NERC (or ensure required assessments are submitted to NERC on schedule), providing comments to the

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assessments, as needed. (This goal has been restated from the 2010 Approved Business Plan and Budget.)

- 3.4. \_\_\_\_\_ Timely review all required incidents, complaints and disturbances
- 4.5. \_\_\_\_\_ Communicate and coordinate issues of reliability concern with NERC

**Funding Requirements — Explanation of Increase (Decrease) over 2010 Approved Budget**

The ~~Reliability Assessment and Performance Analysis program~~ funding requirements ~~reflects~~reflect an increase of \$88K ~~year-over-year for two (2) reasons:~~

- 1. ~~2009 was lowered 177K over the Original Texas RE's 2010 Approved Budget because Texas RE used unspent prior year funds to reduce the 2009 assessment; of Texas RE's start-up costs and increased administrative expenses and~~
- 2. ~~In 2010, fixed asset additions. These increased indirect program expenses are fully~~were allocated to the direct ~~program areas statutory programs on the basis of proportional numbers of FTE employees in each statutory program.~~

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**Section B — 2010 Regional Entity Budget**

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**Reliability Assessment and Performance Analysis Program**

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

Section B — 2010 Regional Entity Budget

<b>Statement of Activities</b>					
<b>2009 Budget &amp; Projection, and 2010 Budget</b>					
<b>Reliability Assessment and Performance Analysis</b>					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
<b>Funding</b>					
<b>ERO Funding</b>					
ERO Assessments	\$ 365,180	\$ 365,180	\$ -	\$ 453,235	\$ 88,055
Penalty Sanctions	-	-	-	-	-
<b>Total ERO Funding</b>	<b>\$ 365,180</b>	<b>\$ 365,180</b>	<b>\$ -</b>	<b>\$ 453,235</b>	<b>\$ 88,055</b>
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
<b>Total Funding</b>	<b>\$ 365,180</b>	<b>\$ 365,180</b>	<b>\$ -</b>	<b>\$ 453,235</b>	<b>\$ 88,055</b>
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	\$ 270,100	\$ 157,007	\$ (113,093)	\$ 217,004	\$ (53,096)
Payroll Taxes	21,608	11,922	(9,686)	17,187	(4,421)
Benefits	31,191	13,181	(18,010)	23,632	(7,559)
Retirement Costs	39,165	21,247	(17,918)	30,793	(8,372)
<b>Total Personnel Expenses</b>	<b>\$ 362,063</b>	<b>\$ 203,356</b>	<b>\$ (158,707)</b>	<b>\$ 288,615</b>	<b>\$ (73,448)</b>
<b>Meeting Expenses</b>					
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	3,117	850	(2,267)	806	(2,311)
Conference Calls	-	-	-	-	-
<b>Total Meeting Expenses</b>	<b>\$ 3,117</b>	<b>\$ 850</b>	<b>\$ (2,267)</b>	<b>\$ 806</b>	<b>\$ (2,311)</b>
<b>Operating Expenses</b>					
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-	-	-	-	-
Office Costs	-	1	1	-	-
Professional Services	-	-	-	-	-
Miscellaneous	-	136	136	673	673
Depreciation	-	-	-	-	-
<b>Total Operating Expenses</b>	<b>\$ -</b>	<b>\$ 137</b>	<b>\$ 137</b>	<b>\$ 673</b>	<b>\$ 673</b>
<b>Total Direct Expenses</b>	<b>\$ 365,180</b>	<b>\$ 204,343</b>	<b>\$ (160,837)</b>	<b>\$ 290,095</b>	<b>\$ (75,085)</b>
<b>Indirect Expenses</b>	<b>\$ 372,419</b>	<b>\$ 246,784</b>	<b>\$ (125,635)</b>	<b>\$ 161,505</b>	<b>\$ (210,914)</b>
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total Expenses</b>	<b>\$ 737,599</b>	<b>\$ 451,127</b>	<b>\$ (286,472)</b>	<b>\$ 451,600</b>	<b>\$ (285,999)</b>
<b>Change in Assets</b>	<b>\$ (372,419)</b>	<b>\$ (85,947)</b>	<b>\$ 286,472</b>	<b>\$ 1,635</b>	<b>\$ 374,054</b>
<b>Fixed Assets</b>					
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
<b>(Incr)Dec in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Allocation of Fixed Assets	\$ (26,847)	\$ (26,847)	\$ -	\$ (1,635)	\$ 25,212
<b>Change in Fixed Assets</b>	<b>\$ (26,847)</b>	<b>\$ (26,847)</b>	<b>\$ -</b>	<b>\$ (1,635)</b>	<b>\$ 25,212</b>
<b>TOTAL CHANGE IN ASSETS</b>	<b>\$ (399,266)</b>	<b>\$ (112,794)</b>	<b>\$ 286,472</b>	<b>\$ (0)</b>	<b>\$ 399,266</b>

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<b>Statement of Activities</b>			
<b>2010 Approved Budget &amp; 2010 Amended Budget</b>			
<b>Reliability Assessment and Performance Analysis</b>			
	2010 Approved Budget	2010 Adjustment to the Approved Budget	2010 Amended Budget
<b>Funding</b>			
<b>ERO Funding</b>			
ERO Assessments	\$ 453,235	\$ 177,181	\$ 630,416
Penalty Sanctions	-	-	-
<b>Total ERO Funding</b>	<b>\$ 453,235</b>	<b>\$ 177,181</b>	<b>\$ 630,416</b>
Membership Dues	-	-	-
Testing Fees	-	-	-
Services & Software	-	-	-
Workshops	-	-	-
Interest	-	-	-
Miscellaneous	-	-	-
<b>Total Funding</b>	<b>\$ 453,235</b>	<b>\$ 177,181</b>	<b>\$ 630,416</b>
<b>Expenses</b>			
<b>Personnel Expenses</b>			
Salaries	\$ 217,004	-	\$ 217,004
Payroll Taxes	17,187	-	17,187
Benefits	23,632	-	23,632
Retirement Costs	30,793	-	30,793
<b>Total Personnel Expenses</b>	<b>\$ 288,615</b>	<b>\$ -</b>	<b>\$ 288,615</b>
<b>Meeting Expenses</b>			
Meetings	-	-	-
Travel	806	-	806
Conference Calls	-	-	-
<b>Total Meeting Expenses</b>	<b>\$ 806</b>	<b>\$ -</b>	<b>\$ 806</b>
<b>Operating Expenses</b>			
Consultants & Contracts	-	-	-
Office Rent	-	-	-
Office Costs	-	-	-
Professional Services	-	-	-
Miscellaneous	673	-	673
Depreciation	-	-	-
<b>Total Operating Expenses</b>	<b>\$ 673</b>	<b>\$ -</b>	<b>\$ 673</b>
<b>Total Direct Expenses</b>	<b>\$ 290,095</b>	<b>\$ -</b>	<b>\$ 290,095</b>
<b>Indirect Expenses</b>	<b>\$ 161,505</b>	<b>\$ 108,959</b>	<b>\$ 270,464</b>
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total Expenses</b>	<b>\$ 451,600</b>	<b>\$ 108,959</b>	<b>\$ 560,559</b>
<b>Change in Assets</b>	<b>\$ 1,635</b>	<b>\$ 68,222</b>	<b>\$ 69,857</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>
Allocation of Fixed Assets	\$ (1,635)	\$ (68,222)	\$ (69,857)
<b>Change in Fixed Assets</b>	<b>\$ (1,635)</b>	<b>\$ (68,222)</b>	<b>\$ (69,857)</b>
<b>TOTAL CHANGE IN ASSETS</b>	<b>\$ (0)</b>	<b>\$ -</b>	<b>\$ -</b>

**Explanations of Variances – Proposed 2010 Amended Budget versus 2009-Approved 2010 Budget**

**Funding Sources**

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

### Personnel Expenses

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

### Meeting Expenses

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

### Operating Expenses

- ~~Material changes to operating expenses are not planned for 2010.~~
- N/A

### Indirect Expenses

- Indirect expenses are ~~declining \$211K year-over-year, due to a reduction in~~increasing by \$109K due to the start-up costs and the increased administrative services costs expenses of Texas RE. The result is a total of \$270K for indirect expenses through 2010.

### Other Non-Operating Expenses

- N/A

### Fixed Asset Additions

- ~~There are no new direct fixed~~Fixed asset additions for this program; however, there is a ~~slight~~are increasing due to the allocation of increased administrative services' fixed ~~asset~~asset expenditures which are required for the start-up of Texas RE, in the amount of approximately \$68K, bringing the total fixed asset additions to \$70K for 2010.

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## Situational Awareness and Infrastructure Security Program

Situational Awareness and Infrastructure Security Program Resources			
(in whole dollars)			
2009 <del>2010</del> Approved Budget		2010 Amended Budget	
Increase(Decrease)			
Total FTEs	<del>4.50</del> 3.03	3.03	<del>4.53</del> 0.00
Total Direct Expenses	<del>\$459,429</del> 391,907	\$391,907	<del>\$232,778</del> 0
Total Indirect Expenses	<del>\$250,393</del> 200,226	<del>\$200,226</del> 335,309	<del>(\$50,166)</del> 135,083
Total Expenses	<del>\$409,522</del> 592,134	<del>\$592,134</del> 727,217	<del>\$482,612</del> 135,083

### Program Scope and Functional Description

This program supports two distinct functions. Situational awareness is focused on near real-time analysis of the BPS for ERCOT ISO. Infrastructure Security focuses on protecting tangible assets from a variety of threats. The majority of activity for this program in 2010 relates to Infrastructure Security, however, some resources are also planned for Situational Awareness.

#### Situational Awareness

Currently, Texas RE relies significantly on the ERCOT ISO to provide details on situational issues. Texas RE Staff have direct access to historical data via the data warehouse. There are two aspects of situational awareness which require Texas RE involvement in 2010:

1. Texas RE will continue to participate in the Situational Awareness for FERC, NERC, and Regional Entities (SAFNR) Project. SAFNR Project goal is to enable 100% of reliability coordinators in the United States to display interconnection system conditions to FERC, NERC, and the respective regional entities. This will be accomplished through internet-based systems that provide visual displays for FERC, NERC, and the Regional Entities (REs) while all the data resides at the reliability coordinators.

The SAFNR Project team is comprised of FERC Office of Electric Reliability staff, NERC Situational Awareness staff, designated RE staff, the Reliability Coordinators (RCs) located in the United States, and the ~~Regional Entity~~ regional entity managers.

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2. Texas RE situational awareness and events analysis staff communicate with NERC, FERC and other regions on observed events, disturbances, or BPS condition. NERC led conference calls are held at a minimum bi-weekly. In the case of more severe events (for example: major blackout or hurricane), daily as needed.

### 2010 Key Assumptions

#### Situational Awareness

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

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### 2010 Goals and Key Deliverables

#### Situational Awareness

SAFNR's ~~subsequent~~ goal is to provide ~~each~~ NERC, FERC and each RE with a common view of the interconnections. In 2010, this includes:

1. Modify existing displays or create new ones to make the visualization more consistent.
2. Assess what aspects are working well, identify areas for improvement and review cost implications.
3. Clarify what is driving the related business case and possibly build in performance metrics from previous phases to help quantify the value.

### **Funding Requirements — Explanation of Increase (Decrease) Over 2010 Approved Budget**

The ~~Situational Awareness and Critical Infrastructure Protection~~ funding requirements ~~reflects~~**reflect** an increase of \$435K ~~year-over-year, in part due to 2009 being lower because~~ **220K from the 2010 Approved Budget for Original** Texas RE ~~used unspent prior-year funds to reduce the 2009 assessment; and in 2010,~~ **to the 2010 Amended Budget because of Texas RE's start-up costs and increased administrative expenses. These increased** indirect

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~~program expenses are fully were allocated to the direct program areas. Additionally, expenses associated with the program are increasing as detailed in the variances section.~~

Situational Awareness

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

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

Critical Infrastructure Protection Resources (Included in Total Situational Awareness and Infrastructure Security) (in whole dollars)			
Increase(Decrease)	<del>2009</del> 2010 Approved Budget	<del>2009</del> 2010 Amended Budget	
Total FTEs	n/a	n/a	n/a
Total Direct Expenses	n/a	n/a	n/a

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Total Indirect Expenses	n/a	n/a	n/a
Total Expenses	n/a	n/a	n/a

*Exhibit not completed due to personnel salary confidentiality.*

**Program Scope and Functional Description**

Responsible entities must become ~~compliant~~ **Compliant** with Critical Infrastructure Protection (CIP) Standards based on the NERC implementation schedules. ERCOT ISO is ~~currently~~ the only ~~designated~~ **registered** Balancing Authority (BA), Transmission Operator (TOP), and Reliability Coordinator (RC) in the ERCOT region and was ~~the only entity~~ required to self-certify compliance to NERC's Urgent Action Cyber Security Standard 1200. As such, ~~only~~ ERCOT ISO must be either ~~auditably compliant~~ **Auditably Compliant** or ~~compliant~~ **Compliant** with all of the CIP Standards requirements by the end of the second quarter 2009; and ~~auditably compliant~~ **Auditably Compliant** with all CIP Standards requirements by the end of the second quarter 2010.

All new registered entities must also become ~~compliant~~ **Compliant** with all CIP standards requirements in accordance with the CIP implementation plan.

Texas RE will continue to play an active role during the implementation of the CIP standards requirements. To provide time for Responsible Entities to examine their policies and procedures, to assemble the necessary documentation, and to meet the requirements of the CIP standards, compliance assessment began in 2007. Status reports are also being requested from Responsible Entities to verify that entities are on schedule and meeting the implementation plan. NERC expects its ~~regional entities~~ **Regional Entities** to provide assistance and education on the CIP standards to ease the transition. Texas RE is budgeting to provide training to registered entities and other stakeholders under the training function budget. Some of the content in this training will be related to cyber-security and will be internally developed.

This program will support activities associated with cyber security, including monitoring and enforcement of compliance with the CIP (CIP-001 thru 009) standards. The intent of the NERC CIP Standards is to ensure that all entities responsible for the reliability of the BPS identify and protect critical cyber assets that control or could impact the reliability of the BPS. The CIP Standards requirements are being communicated to all responsible entities to ensure compliance in accordance with the CIP Implementation Plan. This requires a significant amount of communication with the ERCOT ISO Security Department and entities responsible for complying with the CIP standards. Compliance Audits, self-certifications, and spot checks will be required to verify compliance.

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### 2010 Key Assumptions

- Develop and Implement CIP audit program during 2010.
- Texas RE will only have one major CIP audit in 2010.
- Conduct all CIP Spot Checks at the Texas RE offices (no CIP audit travel will be required in 2010).
- Semi-annual CIP Self-Certifications will be required of registered entities in 2010.
- NERC will ~~conduct~~ be responsible for CIP audits of nuclear facilities, as contemplated by NERC's ~~draft~~ approved Business Plan and Budget. (This assumption has been restated from the 2010 Approved Business Plan and Budget.)
- Six (6) CIP spot checks will be done in 2010.

### 2010 Goals and Key Deliverables

1. Finalize Texas RE CIP audit procedures.
2. Complete the CIP audit of the ERCOT ISO.
3. Complete a minimum of 6 CIP spot checks.
4. Identify CIP Audit Team for 2011.
  - a. Any additional skill sets that may be needed for 2011.
5. Semi-Annual CIP Self-Certifications for 2010.
6. Develop education plan and deliver 2 CIP workshops for registered entities (see Training section)-) before most entities enter Auditably Compliant phase and CIP audits begin. (This goal is slightly revised from the 2010 Approved Business Plan and Budget.)
  - ~~a. Last CIP Workshops before entities enter audibly compliant phase and CIP audits begin.~~
7. Enhance the Texas RE website with CIP information and links.

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

#### Critical Infrastructure Protection

~~The addition of one IT Security subject matter expert (SME) will provide a skill set that Texas RE currently does not possess. Specific knowledge of how to assess the security of EMS and SCADA systems, networks, and electronic security perimeters (ESP) is needed. Incorporating this knowledge into the Texas RE CIP process will be a primary deliverable for the IT Security SME in 2010, as well as participating in the 2010 CIP audit of the ERCOT ISO. The IT Security SME will be participating (and eventually leading) on CIP audits in 2011 and spot checks in~~

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~~2010. In preparation for participating in CIP audits, the IT Security SME will have to attend NERC Auditor Training and NERC CIP Auditor Training. These two training sessions will be the only required travel for this position in 2010. Based on supporting CIP business plan, Texas RE will require 1.0 additional staff position for 2010 (.98 FTEs Statutory and .02 FTEs Non-statutory) starting in the second quarter.~~

**Section B — 2010 Regional Entity Budget**

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**Situational Awareness and Infrastructure Security Program**

Funding sources and related expenses for the situational awareness and infrastructure security section of the 2010 business plan are shown in the table below.

Section B — 2010 Regional Entity Budget

<b>Statement of Activities</b>					
<b>2009 Budget &amp; Projection, and 2010 Budget</b>					
<b>Situational Awareness and Infrastructure Security</b>					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
<b>Funding</b>					
<b>ERO Funding</b>					
ERO Assessments	\$ 159,129	\$ 159,129	\$ -	\$ 594,161	\$ 435,032
Penalty Sanctions	-	-	-	-	-
<b>Total ERO Funding</b>	<b>\$ 159,129</b>	<b>\$ 159,129</b>	<b>\$ -</b>	<b>\$ 594,161</b>	<b>\$ 435,032</b>
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
<b>Total Funding</b>	<b>\$ 159,129</b>	<b>\$ 159,129</b>	<b>\$ -</b>	<b>\$ 594,161</b>	<b>\$ 435,032</b>
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	\$ 118,842	\$ 127,966	\$ 9,124	\$ 291,164	\$ 172,322
Payroll Taxes	9,507	9,142	(365)	23,060	13,553
Benefits	12,479	5,533	(6,945)	31,708	19,229
Retirement Costs	17,232	16,713	(519)	41,316	24,084
<b>Total Personnel Expenses</b>	<b>\$ 158,060</b>	<b>\$ 159,354</b>	<b>\$ 1,294</b>	<b>\$ 387,247</b>	<b>\$ 229,187</b>
<b>Meeting Expenses</b>					
Meetings	-	-	-	-	-
Travel	1,069	3,597	2,528	4,260	3,191
Conference Calls	-	-	-	-	-
<b>Total Meeting Expenses</b>	<b>\$ 1,069</b>	<b>\$ 3,597</b>	<b>\$ 2,528</b>	<b>\$ 4,260</b>	<b>\$ 3,191</b>
<b>Operating Expenses</b>					
Consultants & Contracts	-	-	-	-	-
Office Rent	-	-	-	-	-
Office Costs	-	397	397	-	-
Professional Services	-	-	-	-	-
Miscellaneous	-	-	-	400	400
Depreciation	-	-	-	-	-
<b>Total Operating Expenses</b>	<b>\$ -</b>	<b>\$ 397</b>	<b>\$ 397</b>	<b>\$ 400</b>	<b>\$ 400</b>
<b>Total Direct Expenses</b>	<b>\$ 159,129</b>	<b>\$ 163,348</b>	<b>\$ 4,219</b>	<b>\$ 391,907</b>	<b>\$ 232,778</b>
<b>Indirect Expenses</b>	<b>\$ 250,393</b>	<b>\$ 164,140</b>	<b>\$ (86,253)</b>	<b>\$ 200,226</b>	<b>\$ (50,166)</b>
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total Expenses</b>	<b>\$ 409,522</b>	<b>\$ 327,488</b>	<b>\$ (82,034)</b>	<b>\$ 592,134</b>	<b>\$ 182,612</b>
<b>Change in Assets</b>	<b>\$ (250,393)</b>	<b>\$ (168,359)</b>	<b>\$ 82,034</b>	<b>\$ 2,027</b>	<b>\$ 252,420</b>
<b>Fixed Assets</b>					
Depreciation	-	-	-	-	-
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
<b>(Incr)Dec in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Allocation of Fixed Assets	\$ (18,050)	\$ (18,050)	\$ -	\$ (2,027)	\$ 16,023
<b>Change in Fixed Assets</b>	<b>\$ (18,050)</b>	<b>\$ (18,050)</b>	<b>\$ -</b>	<b>\$ (2,027)</b>	<b>\$ 16,023</b>
<b>TOTAL CHANGE IN ASSETS</b>	<b>\$ (268,443)</b>	<b>\$ (186,409)</b>	<b>\$ 82,034</b>	<b>\$ 0</b>	<b>\$ 268,443</b>

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Section B — 2010 Regional Entity Budget

<b>Statement of Activities</b>			
<b>2010 Approved Budget &amp; 2010 Amended Budget</b>			
<b>Situational Awareness and Infrastructure Security</b>			
	2010 Approved Budget	2010 Adjustment to the Approved Budget	2010 Amended Budget
<b>Funding</b>			
<b>ERO Funding</b>			
ERO Assessments	\$ 594,161	\$ 219,661	\$ 813,822
Penalty Sanctions	-	-	-
<b>Total ERO Funding</b>	<b>\$ 594,161</b>	<b>\$ 219,661</b>	<b>\$ 813,822</b>
Membership Dues	-	-	-
Testing Fees	-	-	-
Services & Software	-	-	-
Workshops	-	-	-
Interest	-	-	-
Miscellaneous	-	-	-
<b>Total Funding</b>	<b>\$ 594,161</b>	<b>\$ 219,661</b>	<b>\$ 813,822</b>
<b>Expenses</b>			
<b>Personnel Expenses</b>			
Salaries	\$ 291,164	-	\$ 291,164
Payroll Taxes	23,060	-	23,060
Benefits	31,708	-	31,708
Retirement Costs	41,316	-	41,316
<b>Total Personnel Expenses</b>	<b>\$ 387,247</b>	<b>\$ -</b>	<b>\$ 387,247</b>
<b>Meeting Expenses</b>			
Meetings	-	-	-
Travel	4,260	-	4,260
Conference Calls	-	-	-
<b>Total Meeting Expenses</b>	<b>\$ 4,260</b>	<b>\$ -</b>	<b>\$ 4,260</b>
<b>Operating Expenses</b>			
Consultants & Contracts	-	-	-
Office Rent	-	-	-
Office Costs	-	-	-
Professional Services	-	-	-
Miscellaneous	400	-	400
Depreciation	-	-	-
<b>Total Operating Expenses</b>	<b>\$ 400</b>	<b>\$ -</b>	<b>\$ 400</b>
<b>Total Direct Expenses</b>	<b>\$ 391,907</b>	<b>\$ -</b>	<b>\$ 391,907</b>
<b>Indirect Expenses</b>	<b>\$ 200,226</b>	<b>\$ 135,083</b>	<b>\$ 335,309</b>
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total Expenses</b>	<b>\$ 592,134</b>	<b>\$ 135,083</b>	<b>\$ 727,217</b>
<b>Change in Assets</b>	<b>\$ 2,027</b>	<b>\$ 84,578</b>	<b>\$ 86,605</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>
Allocation of Fixed Assets	(2,027)	(84,578)	(86,605)
<b>Change in Fixed Assets</b>	<b>\$ (2,027)</b>	<b>\$ (84,578)</b>	<b>\$ (86,605)</b>
<b>TOTAL CHANGE IN ASSETS</b>	<b>\$ 0</b>	<b>\$ -</b>	<b>\$ -</b>

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**Explanations of Variances – Proposed 2010 Amended Budget versus 2009 Approved 2010 Budget**

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### Funding Sources

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

### Personnel Expenses

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

### Meeting Expenses

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

### Operating Expenses

- ~~Operating expenses are flat year over year.~~
- N/A

### Indirect Expenses

- ~~Indirect expenses are declining \$50K year over year, due to a reduction in administrative services costs.~~
- Indirect expenses are increasing by \$135K due to the start-up costs and the increased administrative expenses of Texas RE. The result is a total of \$335K for indirect expenses through 2010. These increased indirect expenses were allocated to the direct statutory programs on the basis of proportional numbers of FTE employees in each statutory program.

### Other Non-Operating Expenses

- N/A

### Fixed Asset Additions

- ~~There are no new direct fixed~~Fixed asset additions for this program; however, there is a ~~slight~~increase increasing due to the allocation of increased administrative services' fixed

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asset expenditures which are required for the start-up of Texas RE, in the amount of approximately \$85K, bringing the total of fixed asset additions to \$87K for 2010.

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**Administrative Services**

Administrative Services			
(in whole dollars)			
2009 <del>2010</del> Approved Budget		2010 Amended Budget	
Increase(Decrease)			
Total FTEs	<del>6.80</del> 3.76	3.76	<del>(3.04)</del> 5.50
Total Direct Expenses	<del>\$2,559,847</del> 001,482	\$2,004,482	<del>(\$558,365)</del> 3,351,783

**Program Scope and Functional Description**

All administrative activities are considered indirect (including General and Administrative or "G&A", Legal and Regulatory, Information Technology, Human Resources, and Finance) and the salaries of all employees in the administrative areas are reflected in the G&A program, to protect the confidentiality of salaries.

**General and Administrative**

The CEO carries on the general affairs of the Texas RE. The CEO is independent of any registered entity and reports exclusively to the Texas RE Board of Directors. The CEO is responsible for:

- Overseeing and managing the activities of Texas RE.
- Making final decisions with respect to non-contested enforcement related to compliance actions for violations of reliability standards.
- Making employment-related decisions for all employees of Texas RE.
- Making an annual report and periodic reports to Texas RE's Board concerning the activities and expenditures of Texas RE.
- Ensuring that Texas RE files all required reports with NERC.
- Monitoring the expenditures of the monies received by Texas RE to ensure that such are deployed in accordance with the approved Texas RE Budget (in cooperation with the Finance Staff).
- Retaining or terminating outside counsel or other advisors as deemed appropriate.
- Performing such other duties as may be determined from time to time by Texas RE's Board, for the benefit of the Texas RE.

2010 Texas ~~Regional~~Reliability Entity Business Plan and Budget  
 Approved by Board of Directors: ~~August 17, 2009~~  
January 18, 2010

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## Section B — 2010 Regional Entity Budget

An Executive Assistant will be responsible for providing executive-level administrative support to the Texas RE CEO. The Executive Assistant will also perform general office manager activities and provide support to other Texas RE staff as needed.

### 2010 Key Assumptions

- Original Texas RE will perform all Statutory and Non-statutory activities until Implementation.
- Upon Implementation Texas RE will perform all Statutory and Non-statutory activities as the regional entity.
- 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 to 40-46.00 staff (34.00-39.50 FTEs Statutory, 6.00-50 FTEs Non-statutory).~~
- ~~Texas RE will continue to operate as-), including an independent division increase of ERCOT ISO 6.00 FTE resulting from the formation of Texas RE as a separate entity from ERCOT.~~
- Where possible, all appropriate direct program expenses will be a direct ~~costs~~ costs to ~~their~~ the respective program and function. Only corporate services expenses and personnel will remain in administrative services.
- ~~Texas RE will establish a cash reserve of 75 days cash on hand (totaling \$1,371K, with \$855K on hand from 2009, for a difference of \$516K), or a 20% reserve for contingency planning purposes. This will not result in an increased assessment for 2010. Texas RE projects a balance of \$594K in its regulatory liability (unspent prior year funds) that it will release in 2010. Additionally, Texas RE will reduce assessments by the difference (\$78K).~~
- The costs currently incurred under the MOU are eliminated, and these cost reductions are reflected in column 4 in the "General & Administrative" Statement of Activities table on page 49.

### 2010 Goals and Key Deliverables

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

2010 Texas ~~Regional~~ Reliability Entity Business Plan and Budget  
Approved by Board of Directors: ~~August 17, 2009~~  
January 18, 2010

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Section B — 2010 Regional Entity Budget

~~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~~ key performance indicators and ~~Benchmarks~~ benchmarks for Texas RE operations.

~~5.~~

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

~~In the Over 2010 budget, the funding requirement is decreasing \$336K. Indirect programs allocate their~~ **Approved Budget**

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- ~~The funding requirements for this program reflect an increase of \$215K over Original Texas RE's 2010 Approved Budget, because of Texas RE's required start-up costs and increased administrative operational expenses. These increased indirect expenses were allocated to the direct programs~~ statutory programs on the basis of proportional numbers of FTE employees in each statutory program.

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**Section B — 2010 Regional Entity Budget**

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**General and Administrative**

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

Section B — 2010 Regional Entity Budget

<b>Statement of Activities</b>					
<b>2009 Budget &amp; Projection, and 2010 Budget</b>					
<b>General and Administrative</b>					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
<b>Funding</b>					
<b>ERO Funding</b>					
ERO Assessments	\$ 257,531	\$ 257,531	\$ -	\$ (80,265)	\$ (337,796)
Penalty Sanctions	-	-	-	-	-
<b>Total ERO Funding</b>	<b>\$ 257,531</b>	<b>\$ 257,531</b>	<b>\$ -</b>	<b>\$ (80,265)</b>	<b>\$ (337,796)</b>
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	4,125	4,125	2,000	2,000
Miscellaneous	-	-	-	-	-
<b>Total Funding</b>	<b>\$ 257,531</b>	<b>\$ 261,656</b>	<b>\$ 4,125</b>	<b>\$ (78,265)</b>	<b>\$ (335,796)</b>
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	\$ 764,074	\$ 737,553	\$ (26,522)	\$ 539,855	\$ (224,219)
Payroll Taxes	61,126	55,400	(5,726)	42,598	(18,528)
Benefits	61,605	57,729	(3,876)	54,570	(7,034)
Retirement Costs	110,791	96,644	(12,147)	80,324	(30,467)
<b>Total Personnel Expenses</b>	<b>\$ 997,596</b>	<b>\$ 949,325</b>	<b>\$ (48,271)</b>	<b>\$ 717,347</b>	<b>\$ (280,249)</b>
<b>Meeting Expenses</b>					
Meetings	-	870	870	3,600	3,600
Travel	12,820	13,404	584	17,158	4,338
Conference Calls	-	-	-	-	-
<b>Total Meeting Expenses</b>	<b>\$ 12,820</b>	<b>\$ 14,274</b>	<b>\$ 1,454</b>	<b>\$ 20,758</b>	<b>\$ 7,938</b>
<b>Operating Expenses</b>					
Consultants & Contracts	\$ 487,054	\$ 539,074	\$ 52,020	\$ 676,331	\$ 189,277
Office Rent	517,550	287,392	(230,158)	327,600	(189,950)
Office Costs	13,320	15,506	2,186	24,240	10,920
Professional Services	30,000	82,462	52,462	60,000	30,000
Miscellaneous	10,515	8,410	(2,105)	1,350	(9,165)
Depreciation	-	-	-	-	-
<b>Total Operating Expenses</b>	<b>\$ 1,058,439</b>	<b>\$ 932,844</b>	<b>\$ (125,595)</b>	<b>\$ 1,089,521</b>	<b>\$ 31,082</b>
<b>Total Direct Expenses</b>	<b>\$ 2,068,855</b>	<b>\$ 1,896,443</b>	<b>\$ (172,412)</b>	<b>\$ 1,827,626</b>	<b>\$ (241,229)</b>
<b>Indirect Expenses</b>	<b>\$ (2,923,855)</b>	<b>\$ (1,896,443)</b>	<b>\$ 1,027,412</b>	<b>\$ (1,827,626)</b>	<b>\$ 1,096,229</b>
<b>Other Non-Operating Expenses</b>	<b>\$ 855,000</b>	<b>\$ -</b>	<b>\$ (855,000)</b>	<b>\$ -</b>	<b>\$ (855,000)</b>
<b>Total Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (0)</b>	<b>\$ (0)</b>
<b>Change in Assets</b>	<b>\$ 257,531</b>	<b>\$ 261,656</b>	<b>\$ 4,125</b>	<b>\$ (78,265)</b>	<b>\$ (335,796)</b>
<b>Fixed Assets</b>					
Depreciation	-	-	-	-	-
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
<b>(Incr)Dec in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Allocation of Fixed Assets	-	-	-	-	-
<b>Change in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>TOTAL CHANGE IN ASSETS</b>	<b>\$ 257,531</b>	<b>\$ 261,656</b>	<b>\$ 4,125</b>	<b>\$ (78,265)</b>	<b>\$ (335,796)</b>

NOTE: The salaries of the indirect employees in G&A, Legal, Information Technology, and Finance have been consolidated for personnel confidentiality and budgeted under G&A.

2010 Texas ~~Regional~~Reliability Entity Business Plan and Budget

Approved by Board of Directors: August 17, 2009

January 18, 2010

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Section B — 2010 Regional Entity Budget

Statement of Activities						
2010 Approved Budget & 2010 Amended Budget						
General and Administrative - After Structural Separation						
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	2010	2010	2010	2010	2010	2010
	Approved	Budget	Budget	Base Budget	Adjustment	Amended
	Budget	Start-Up	Recurring	Reductions	to the Approved	Budget
		Costs	Costs	(MOU Decreases)	Budget	
<b>Funding</b>						
<b>ERO Funding</b>						
ERO Assessments	\$ (80,265)	\$ -	\$ 349,842	\$ (161,632)	\$ 188,211	\$ 107,946
Penalty Sanctions	-	-	-	-	-	-
<b>Total ERO Funding</b>	<b>\$ (80,265)</b>	<b>\$ -</b>	<b>\$ 349,842</b>	<b>\$ (161,632)</b>	<b>\$ 188,211</b>	<b>\$ 107,946</b>
Membership Dues	-	-	27,000	-	27,000	27,000
Testing Fees	-	-	-	-	-	-
Services & Software	-	-	-	-	-	-
Workshops	-	-	-	-	-	-
Interest	2,000	-	-	-	-	2,000
Miscellaneous	-	-	-	-	-	-
<b>Total Funding</b>	<b>\$ (78,265)</b>	<b>\$ -</b>	<b>\$ 376,842</b>	<b>\$ (161,632)</b>	<b>\$ 215,211</b>	<b>\$ 136,946</b>
<b>Expenses</b>						
<b>Personnel Expenses</b>						
Salaries	\$ 539,855	\$ -	\$ 490,490	\$ -	\$ 490,490	\$ 1,030,345
Payroll Taxes	42,598	-	37,438	-	37,438	80,036
Benefits	54,570	-	47,960	-	47,960	102,530
Retirement Costs	80,324	-	70,594	-	70,594	150,918
<b>Total Personnel Expenses</b>	<b>\$ 717,347</b>	<b>\$ -</b>	<b>\$ 646,482</b>	<b>\$ -</b>	<b>\$ 646,482</b>	<b>\$ 1,363,829</b>
<b>Meeting Expenses</b>						
Meetings	\$ 3,600	\$ -	\$ -	\$ -	\$ -	\$ 3,600
Travel	17,158	-	-	-	-	17,158
Conference Calls	-	-	-	-	-	-
<b>Total Meeting Expenses</b>	<b>\$ 20,758</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 20,758</b>
<b>Operating Expenses</b>						
Consultants & Contracts	\$ 676,331	\$ 200,000	\$ 287,675	\$ (559,523)	\$ (71,848)	\$ 604,483
Office Rent	327,600	-	229,725	(193,425)	36,300	363,900
Office Costs	24,240	-	4,590	-	4,590	28,830
Professional Services	60,000	-	15,300	-	15,300	75,300
Miscellaneous	1,350	-	-	-	-	1,350
Depreciation	-	-	146,550	-	146,550	146,550
<b>Total Operating Expenses</b>	<b>\$ 1,069,521</b>	<b>\$ 200,000</b>	<b>\$ 683,840</b>	<b>\$ (752,948)</b>	<b>\$ 130,892</b>	<b>\$ 1,220,413</b>
<b>Total Direct Expenses</b>	<b>\$ 1,827,626</b>	<b>\$ 200,000</b>	<b>\$ 1,330,322</b>	<b>\$ (752,948)</b>	<b>\$ 777,374</b>	<b>\$ 2,605,000</b>
<b>Indirect Expenses</b>	<b>\$ (1,827,626)</b>	<b>\$ (200,000)</b>	<b>\$ (1,330,322)</b>	<b>\$ 752,948</b>	<b>\$ (777,374)</b>	<b>\$ (2,605,000)</b>
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total Expenses</b>	<b>\$ (0)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (0)</b>
<b>Change in Assets</b>	<b>\$ (78,265)</b>	<b>\$ -</b>	<b>\$ 376,842</b>	<b>\$ (161,632)</b>	<b>\$ 215,211</b>	<b>\$ 136,946</b>
<b>Fixed Assets</b>						
Depreciation	\$ -	\$ -	\$ (146,550)	\$ -	\$ (146,550)	\$ (146,550)
Computer & Software CapEx	-	-	-	-	-	-
Furniture & Fixtures CapEx	-	317,000	-	-	317,000	317,000
Equipment CapEx	-	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-	-
<b>(Incr)Dec in Fixed Assets</b>	<b>\$ -</b>	<b>\$ (317,000)</b>	<b>\$ 146,550</b>	<b>\$ -</b>	<b>\$ (170,450)</b>	<b>\$ (170,450)</b>
Allocation of Fixed Assets	\$ -	\$ 317,000	\$ (146,550)	\$ -	\$ 170,450	\$ 170,450
<b>Change in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>TOTAL CHANGE IN ASSETS</b>	<b>\$ (78,265)</b>	<b>\$ -</b>	<b>\$ 376,842</b>	<b>\$ (161,632)</b>	<b>\$ 215,211</b>	<b>\$ 136,946</b>

NOTE: The salaries of the indirect employees in G&A, Legal, Information Technology, and Finance have been consolidated for personnel confidentiality and budgeted under G&A.

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**Explanations of Variances – Proposed 2010 Amended Budget versus 2009-Approved 2010 Budget**

**Funding Sources**

- ~~The 2010 funding requirements are increasing \$215K over the 2010 budget, Approved Budget. ERO assessments are increasing by \$188K, and Texas RE expects to receive \$27K for membership fees, which were not provided for in the 2010 Approved Budget. The 2010 Approved Budget assumed unspent funds of \$78K; therefore, the net funding requirement for 2010 is decreasing (\$336K)-\$137K. Indirect programs allocate their program costs are allocated to the direct programs. In 2010, Texas RE is further reducing assessments by \$78K using unspent funds from 2009 statutory programs.~~

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**Personnel Expenses**

- ~~The primary reason for the decrease of \$280K/increase of \$646K for Statutory Personnel Expenses is that Texas RE will need to hire additional staff (in addition to the partial outsourcing of) certain of its human resources (HR) and information technology (IT) services that were formerly performed by ERCOT ISO under the MOU at a lower cost. The budget for Personnel Expenses is resulting from consolidated to ensure the confidentiality of individual salaries under the General & Administrative budget. Texas RE will need to hire the following positions:~~
  - o ~~One (1) HR Manager to support and facilitate the HR and benefits functions for Texas RE and its employees.~~
  - o ~~One (1) Member Services Administrator to oversee administration of membership information and enrollment and to coordinate committee meetings and activities.~~
  - o ~~One (1) Finance and Accounting Manager to maintain the accounting system, financial/internal controls, budget development, payroll processing, accounts payable, accounts receivable, increased management, accountability, fixed assets, financial statement preparation and auditor interface.~~
  - o ~~One (1) Attorney to perform primarily corporate legal services, such as negotiation and preparation of contracts and other direct work in Reliability Standards, Compliance Monitoring and Enforcement and Organization Registration and Certification Program, Reliability Assessment, Training, Situational Awareness, and Critical Infrastructure Protection areas. Texas RE uses time tracking to better enable the recording of direct labor expenses to the program level. Those tasks that are considered required documentation for goods, services, software licenses, and HR benefit plans, and HR legal services, all of which were previously included in the HR, information technology, finance, and other administrative services are allocated as an indirect expense to the program areas that were provided by ERCOT ISO under the MOU.~~
  - o ~~Two (2) IT employees to provide Texas RE with the appropriate level of IT support and skill necessary to maintain its network infrastructure and data~~

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Section B — 2010 Regional Entity Budget

integrity, provide desk-side support to Texas RE staff, facilitate specialized software and applications support, develop project scheduling / priority project lists, and project requirements engineering documentation (policies, procedures) creation.

**Meeting Expenses**

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

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**Operating Expenses**

- Consulting and contract expenses are increasing in direct response to employee increases as well as trended actual expenses. This expense increase is related to the MOU between Texas RE and ERCOT-ISO. The resulting increase is expected to be \$180K. Office costs are increasing \$11K primarily related to trends in office supply consumption as well as expected increases. There is an additional \$30K being provisioned for professional outside services as may be required by program use. Offsetting the increases are a reduction in training expenses (\$0K), these expenses are now budgeted in their respective programs, as well as a reduction in the rent expense in 2010 (\$190K). The reduction is rent reflected a lower rentable square foot rate obtained by Texas RE for its office space as well as a reduction in the facilities services expenses paid through the MOU.

**Indirect Expenses**

- Indirect expense is decreasing significantly \$1,096K, year-over-year primarily attributed to identifying the direct cost components that were budgeted in G&A in the 2009 budget. These costs are more appropriately reflected as direct program costs in the functional areas due to the nature of the work being performed.

- No additional travel is anticipated for the Amended 2010 Budget.

**Operating Expenses**

- Consulting and contract expenses are decreasing \$72K, due to the net effect of reductions from the elimination of the MOU. Texas RE expects an increase in rent and facilities-related expenses of \$36K for 2010, due to a possible move at the end of 2010, because of space constraints and the expiration of Texas RE's present lease on December 31, 2010. The recurring costs are also increasing by \$15K for Professional Services and \$5K for Office Costs which are not included in the 2010 Approved Budget. Finally, depreciation expenses are increasing \$147K as a result of fixed asset purchases required as part of the start-up costs.

**Indirect Expenses**

- The entire program/activity expense reflected for G&A will be treated as indirect expense.

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Section B — 2010 Regional Entity Budget

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**Other Non-Operating Expenses**

- ~~Non-Operating expenses are decreasing from 2009 to 2010. Due to the change from cash-based to GAAP based budgeting, the cash reserve is no longer funded as a non-operating expense, this resulted in a decrease year-over-year of \$855K.~~
- None.

**Fixed Asset Additions**

- ~~N/A~~
- Office furniture and equipment for all Texas RE staff (office and conference room furniture, computers, servers, telephone system, software, etc.) totaling \$317K will need to be acquired as part of the start-up costs. This will be offset from a funding perspective by depreciation expense of \$147K.

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## Legal and Regulatory

### Program Scope and Functional Description

Texas RE Legal and Regulatory provides legal advice and counsel to Texas RE management, board, and staff on all legal and regulatory matters affecting Texas RE, including corporate governance, transactions, personnel, governmental relations, communications, NERC registration, standards development, compliance, enforcement, and other regulatory matters. Legal staff also retains and oversees the work of outside legal counsel as needed. Legal and Regulatory employees anticipate that the primary regulatory emphasis during 2010 will include NERC registration appeals, investigation oversight, settlement coordination, and enforcement proceedings under the CMEP. Legal and Regulatory employees will also continue to review and provide feedback to NERC regarding new and modified standards, procedures, and templates used in the CMEP process. Texas RE attorneys, or outside counsel overseen by Texas RE attorneys, will represent the Texas RE in its quasi-prosecutorial role in CMEP enforcement hearings, and in NERC, FERC, and PUCT rulemakings and other proceedings. In addition to overseeing Board meetings and activities, Texas RE Legal and Regulatory staff will oversee and coordinate corporate membership enrollment, information, and meetings and will coordinate and oversee the Member Representatives Committee activities.

### 2010 Key Assumptions

Texas RE Legal and Regulatory has the following key assumptions:

- A. Original Texas RE will ~~remain functionally~~ continue to perform all Statutory and Non-statutory activities until Implementation.
- B. Upon Implementation, Texas RE will perform the Statutory and Non-statutory activities and will operate as a separate corporation, not associated with or affiliated with ERCOT ISO, and Texas RE will receive no administrative services from ERCOT ISO and will not undergo any significant board or governance changes (caused by board or
- A-C. Legal and Regulatory will oversee and coordinate corporate membership decisions, the NERC three-year Assessment, the FERC audit of Texas RE, or otherwise) and Member Representative Committee activities.
- B-D. The Delegation Agreement requirements and NERC expectations will remain constant consistent.
- C-E. The majority of possible violations will be handled through the settlement process.
- D-F. The number of contested registration and enforcement cases will remain low — ~~one~~ fairly low, but will increase to two large or ~~two~~ up to three small-to-mid-sized disputes per year.

### 2010 Goals and Key Deliverables

1. Coordinate Texas RE board information, meetings, and materials and maintain corporate bylaws and corporate procedures as required by law, the Delegation Agreement, NERC Rules, and FERC Orders.

2010 Texas ~~Regional~~ Reliability Entity Business Plan and Budget

Approved by Board of Directors: ~~August 17, 2009~~

~~January 18, 2010~~

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**Section B — 2010 Regional Entity Budget**

2. Provide legal advice to the CEO and the Texas RE board, ~~advisory committee board committees~~, and departments, as needed on corporate, contract, ~~and~~ transactional, ~~regulatory, enforcement~~, and other matters.
3. Represent Texas RE in all NERC, FERC, regulatory matters, and legal proceedings.
4. Prosecute CMEP hearings of contested enforcement matters.
5. Act as a resource for investigations to help ensure accurate, appropriate and complete documentation is maintained and consistent procedures are followed.
6. Communicate and maintain effective relationships with NERC, FERC, the PUCT, and other governmental authorities.
7. Manage and oversee all Texas RE registration and enforcement action appeals.
8. Review Texas RE alleged violations, penalties, and sanctions for consistency.
9. Participate in settlement processes and review all settlements for consistent application of the CMEP.
10. Review and provide input to NERC regarding new and modified standards, procedures, forms, and templates.

**Funding Requirements — Explanation of Increase (Decrease) Over 2010 Approved Budget**

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

All expenses for this program are allocated to the statutory direct programs.

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**Section B — 2010 Regional Entity Budget**

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**Legal and Regulatory**

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

Section B — 2010 Regional Entity Budget

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

NOTE: The salaries of the indirect employees in G&A, Legal, Information Technology, and Finance have been consolidated for personnel confidentiality and budgeted under G&A.

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Section B — 2010 Regional Entity Budget

Statement of Activities						
2010 Approved Budget & 2010 Amended Budget						
Legal and Regulatory - After Structural Separation						
	[1]	[2]	[3]	[4]	[2]+[3]+[4]=[5]	[1]+[5]=[6]
	2010 Approved Budget	2010 Budget Start-Up Costs	2010 Budget Recurring Costs	2010 Base Budget Reductions (MOU Decreases)	2010 Adjustment to the Approved Budget	2010 Amended Budget
<b>Funding</b>						
<b>ERO Funding</b>						
ERO Assessments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Penalty Sanctions	-	-	-	-	-	-
<b>Total ERO Funding</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Membership Dues	-	-	-	-	-	-
Testing Fees	-	-	-	-	-	-
Services & Software	-	-	-	-	-	-
Workshops	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-
<b>Total Funding</b>	<b>\$ -</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>\$ -</b>
<b>Meeting Expenses</b>						
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	4,478	-	-	-	-	4,478
Conference Calls	-	-	-	-	-	-
<b>Total Meeting Expenses</b>	<b>\$ 4,478</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 4,478</b>
<b>Operating Expenses</b>						
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-	-	-	-	-	-
Office Costs	5,400	-	-	-	-	5,400
Professional Services	48,000	-	90,000	-	90,000	138,000
Miscellaneous	6,200	-	-	-	-	6,200
Depreciation	-	-	-	-	-	-
<b>Total Operating Expenses</b>	<b>\$ 59,600</b>	<b>\$ -</b>	<b>\$ 90,000</b>	<b>\$ -</b>	<b>\$ 90,000</b>	<b>\$ 149,600</b>
<b>Total Direct Expenses</b>	<b>\$ 64,078</b>	<b>\$ -</b>	<b>\$ 90,000</b>	<b>\$ -</b>	<b>\$ 90,000</b>	<b>\$ 154,078</b>
<b>Indirect Expenses</b>	<b>\$ (64,078)</b>	<b>\$ -</b>	<b>\$ (90,000)</b>	<b>\$ -</b>	<b>\$ (90,000)</b>	<b>\$ (154,078)</b>
<b>Other Non-Operating Expenses</b>	<b>\$ -</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>\$ -</b>
<b>Change in Assets</b>	<b>\$ -</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>	<b>\$ -</b>
Allocation of Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Change in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>TOTAL CHANGE IN ASSETS</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

NOTE: The salaries of the indirect employees in G&A, Legal, Information Technology, and Finance have been consolidated for personnel confidentiality and budgeted under G&A.

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Section B — 2010 Regional Entity Budget

Explanations of Variances – Proposed 2010 Amended Budget versus 2009 Approved 2010 Budget

Funding Sources

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

Personnel Expenses

- Reflected under Texas RE is adding one (1) Attorney and one (1) Member Services Administrator, due to the increased workload that was formerly performed for Original Texas RE under the MOU with ERCOT ISO. However, those employees are reflected under G&A for personnel confidentiality purposes. The FTE's are segregated on detail for the headcount is reflected in Table 2 within Section B.

Meeting Expenses

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

Operating Expenses

- Professional services (external legal) expenses are now budgeted where they are likely to be incurred \$252K, which is in support of the direct program functions. However, the expenses remaining within this indirect program are of a more administrative services nature and are allocated as an indirect expense.
- No additional travel is anticipated.

Operating Expenses

- Legal and Regulatory requires an additional \$90K to pay for outside legal counsel expenses. This increased expense is not related to the formation of Texas RE as a separate legal entity. This is to ensure that there are sufficient funds to cover the anticipated additional registration or enforcement disputes.

Indirect Expenses

- Indirect expense is decreasing significantly \$250K, year-over-year primarily attributed to identifying the direct cost components that were budgeted in legal and regulatory in 2009. These costs are more appropriately reflected as direct program costs in the functional areas due to the nature of the work being performed. None.

Other Non-Operating Expenses

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- ~~N/A~~
- None.

**Fixed Asset Additions**

- ~~N/A~~
- None.



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## Information Technology

### Program Scope and Functional Description

Texas RE's IT ~~staff~~employees will provide a broad range of information technology support to Texas RE, including the following: strategy; research; vendor management; planning, development, and deployment of enterprise systems and computer applications/systems in support of business needs; and support, training, and maintenance for these systems and applications.

IT staff will work with Texas RE management to develop a technological strategy to reach Texas RE's long-term goals and meet immediate system and hardware needs. In addition, IT ~~Staff~~staff will research and implement technologies for the purpose of increasing Texas RE efficiency and/or reducing workload.

In addition to its internal development efforts, IT ~~staff~~employees will ~~use~~outsource a mix of services ~~from external to third-party~~ vendors. ~~This will require a great deal of time and resources during the early part of 2010, as Texas RE competitively resources and acquires the information technology equipment and services that were performed for Original Texas RE by ERCOT ISO's IT department. ISO under the MOU.~~ To ensure that applications and hardware are well maintained, service levels remain high, and costs are controlled, IT staff will provide vendor management and coordinate with ~~ERCOT ISO~~external IT ~~staff~~vendors on day-to-day support, administration, and future requirements. ~~For project and outsourcing agreements, IT staff will also work closely with Finance, Legal, and ERCOT ISO Procurement to provide specialized knowledge and the contractual details for the technical service to be provided.~~

IT staff also has the general responsibility to keep Texas RE systems up-to-date with evolving industry standards. ~~IT staff and~~ will work with other ~~regional entities~~Regional Entities and NERC to that end.

IT staff will manage the design, implementation, support, and maintenance of the tools and delivery mechanisms to support the communication of information to the market, specifically the Texas RE website, Texas RE ~~e-mail~~email boxes and lists, and Web-based training.

IT staff will also manage the design, ~~implement~~implementation, support, and ~~maintain~~maintenance of Texas RE data and records-management tools to support the Standards, Registration, and CMEP programs, as well as improving registered entities' ability to participate in the processes. Specifically, such tools include the Texas ~~Regional~~RE Entity Portal and associated tools for management and tracking, the Reliability Standards tracking tool, ~~the compliance and enforcement data management system~~, and the electronic document management system. IT staff will also assist with the transition of Texas RE ~~Staff's~~staff's ability to receive or view necessary data in ERCOT ISO nodal systems. IT staff will also participate in

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the design and development of database models, web-enabled applications, data extraction and delivery methods, and data presentation.

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**2010 Key Assumptions**

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- ~~The 2010 budget assumes that~~Original Texas RE ~~remains a division of ERCOT ISO, with the ability will continue to purchase some~~procure key IT equipment and services (such as computers and support, email and support, phone service and support, enterprise servers, and WebEx) ~~from ERCOT ISO, but not including any services relating to the portal) from ERCOT ISO for at least several months of 2010, until these services can be performed by new employees or third-party vendors, which will occur prior to Implementation.~~
- ~~The 2010 budget assumes that~~ Texas RE ~~continues~~will receive no IT services from ERCOT ISO.
- Original Texas RE is in the process of competitively procuring its IT equipment (including computers, servers, telephone systems, etc.), software, and all required IT services from qualified third-parties, and it will implement a transition of the IT services from ERCOT ISO as part of the Texas RE start up costs.
- Texas RE will require two (2) additional IT employees to ~~work as~~perform services that are currently provided by ERCOT ISO under the MOU.
- Texas RE will outsource many key IT services (email server hosting and service, desk side support services, telecommunications services, etc.) to third parties, at a cost greater than Original Texas RE paid to ERCOT ISO under the MOU.
- Texas RE will be a member of the Consortium User Group to collaborate on and share the costs of development for the portal software with other ~~regional entities~~Regional Entities.

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**2010 Goals and Key Deliverables**

IT objectives for 2010 include the following:

1. ~~Develop~~Implement and monitor long-term strategy in response to business needs.

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**Section B — 2010 Regional Entity Budget**

2. ~~Research~~Continue to research, and develop, and/or purchase software and hardware to respond to immediate business needs.
3. Manage vendors to ensure quality of services and applications, responsiveness to Texas RE needs, and cost controls.
- ~~4. Liaise with ERCOT ISO IT staff regarding IT systems and tools.~~
4. Provide vendor management support / IT department management support (security, disaster recovery, service management, self-assessment, lifecycle management)
5. Work effectively with other regional entities and NERC to ensure that Texas RE remains consistent.
6. Assist in ensuring information systems are functional and secure, and that applications running on those systems meet business requirements for performance, availability, and security.
7. Provide or oversee desk side support to Texas RE staff.
8. Support specialized software and applications.
9. Oversee project scheduling and priority project lists.
10. Engineer project requirements.
11. Ensure documentation (policies, procedures) creation and management for IT operations.
12. Train and support staff on software and applications.
13. Implement and oversee all Texas RE electronic systems and tools.

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

~~In the Over 2010 budget, the funding requirement is decreasing (\$384K).~~ **Approved Budget**

- Indirect ~~programs allocate their program~~ costs are allocated to the direct programs.

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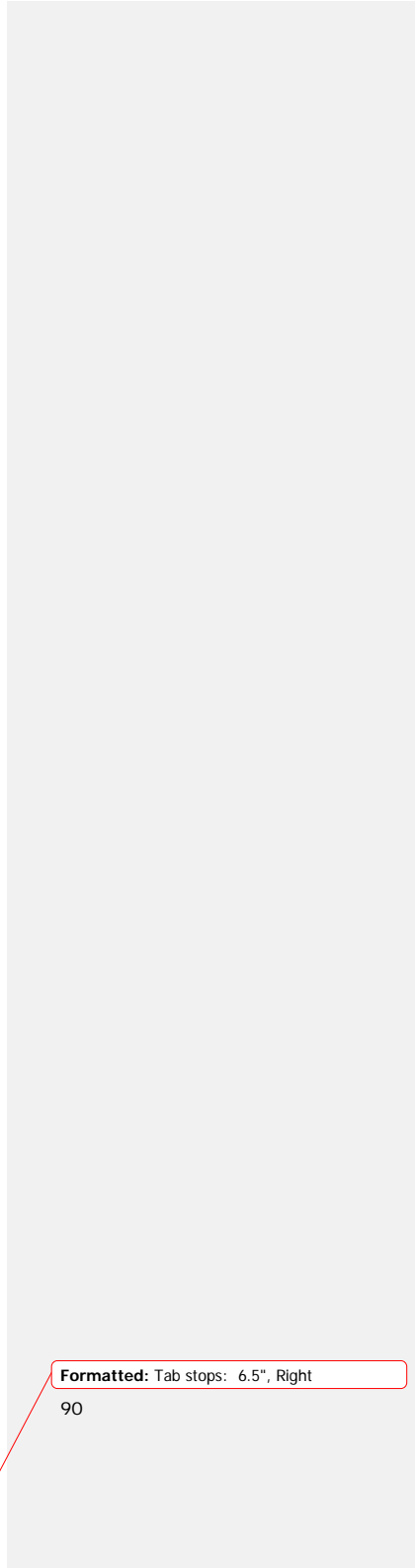
**Section B — 2010 Regional Entity Budget**

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**Information Technology**

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

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Section B — 2010 Regional Entity Budget

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

NOTE: The salaries of the indirect employees in G&A, Legal, Information Technology, and Finance have been consolidated for personnel confidentiality and budgeted under G&A.

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Statement of Activities						
2010 Approved Budget & 2010 Amended Budget						
Information Technology - After Structural Separation						
	[1]	[2]	[3]	[4]	[2]+[3]+[4]=[5]	[1]+[5]=[6]
	2010	2010	2010	2010	2010	2010
	Approved	Budget	Budget	Base Budget	Adjustment	Amended
	Budget	Start-Up	Recurring	Reductions	to the Approved	Budget
		Costs	Costs	(MOU Decreases)	Budget	
<b>Funding</b>						
<b>ERO Funding</b>						
ERO Assessments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Penalty Sanctions	-	-	-	-	-	-
<b>Total ERO Funding</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Membership Dues	-	-	-	-	-	-
Testing Fees	-	-	-	-	-	-
Services & Software	-	-	-	-	-	-
Workshops	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-
<b>Total Funding</b>	<b>\$ -</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>\$ -</b>
<b>Meeting Expenses</b>						
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	4,057	-	-	-	-	4,057
Conference Calls	-	-	-	-	-	-
<b>Total Meeting Expenses</b>	<b>\$ 4,057</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 4,057</b>
<b>Operating Expenses</b>						
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-	-	-	-	-	-
Office Costs	960	-	-	-	-	960
Professional Services	33,860	-	180,873	-	180,873	214,733
Miscellaneous	6,500	-	-	-	-	6,500
Depreciation	12,000	-	-	-	-	12,000
<b>Total Operating Expenses</b>	<b>\$ 53,320</b>	<b>\$ -</b>	<b>\$ 180,873</b>	<b>\$ -</b>	<b>\$ 180,873</b>	<b>\$ 234,193</b>
<b>Total Direct Expenses</b>	<b>\$ 57,377</b>	<b>\$ -</b>	<b>\$ 180,873</b>	<b>\$ -</b>	<b>\$ 180,873</b>	<b>\$ 238,250</b>
<b>Indirect Expenses</b>	<b>\$ (57,377)</b>	<b>\$ -</b>	<b>\$ (180,873)</b>	<b>\$ -</b>	<b>\$ (180,873)</b>	<b>\$ (238,250)</b>
<b>Other Non-Operating Expenses</b>	<b>\$ -</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>\$ -</b>
<b>Change in Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Fixed Assets</b>						
Depreciation	\$ (12,000)	\$ -	\$ -	\$ -	\$ -	\$ (12,000)
Computer & Software CapEx	32,263	634,000	-	-	634,000	666,263
Furniture & Fixtures CapEx	-	-	-	-	-	-
Equipment CapEx	-	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-	-
<b>(Incr)Dec in Fixed Assets</b>	<b>\$ (20,263)</b>	<b>\$ (634,000)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (634,000)</b>	<b>\$ (654,263)</b>
Allocation of Fixed Assets	\$ 20,263	\$ 634,000	\$ -	\$ -	\$ 634,000	\$ 654,263
<b>Change in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>TOTAL CHANGE IN ASSETS</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

NOTE: The salaries of the indirect employees in G&A, Legal, Information Technology, and Finance have been consolidated for personnel confidentiality and budgeted under G&A.

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 January 18, 2010

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Section B — 2010 Regional Entity Budget

Explanations of Variances – Proposed 2010 Amended Budget versus 2009 2010 Approved Budget

**Funding Sources**

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

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**Personnel Expenses**

- ~~Reflected under There are two (2) additional IT positions included in Texas RE's budget for 2010, to perform some of the services provided to Original Texas RE under the MOU with ERCOT ISO. These positions have been reflected under G&A for personnel confidentiality purposes. The FTE's are segregated on However, the detail for the headcount is reflected in Table 2 within Section B.~~

**Meeting Expenses**

- ~~Travel costs are increasing approximately \$4K. This is primarily related to the need to meet with the Consortium User Group and NERC working groups. No additional meeting and travel expense is provided for in the 2010 Amended Budget.~~

**Operating Expenses**

- ~~Professional IT services (hosting and professional services) expenses are now budgeted where they are likely to be incurred, which is in for Microsoft Exchange and other servers, desk side support of the functions and direct programs \$26K less, year over year. However, the expenses remaining, maintenance, etc. are expected to increase \$181K over Original Texas RE's 2010 Approved Budget, due to the higher costs of obtaining these services from outside providers. These expenses which are within this indirect program are of a more administrative services nature and are required to maintain the IT functionality for all of Texas RE's Statutory activities and should be allocated as an indirect expense.~~

**Indirect Expenses**

- ~~Indirect expense is decreasing \$80K, year over year primarily attributed to identifying the direct cost components that were budgeted in Information Technology in 2009. These costs are more appropriately reflected as direct program costs in the functional areas due to the nature of the work being performed. None.~~

**Other Non-Operating Expenses**

- ~~N/A~~
- None.

2010 Texas ~~Regional~~Reliability Entity Business Plan and Budget

Approved by Board of Directors: ~~August 17, 2009~~

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Section B — 2010 Regional Entity Budget

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**Fixed Asset Additions**

- ~~Fixed assets are now budgeted where they are likely to be incurred, which is in support of the functions and direct programs. The result is a net reduction in indirect allocations of \$200K. However, the expenses remaining within this indirect program are of a more administrative services nature and are allocated as an indirect expense.~~
- ~~The allocation of fixed assets is also decreasing for the reason specified above. The amount of the decrease is expected to be, \$226K year-over-year.~~



Section B — 2010 Regional Entity Budget

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**Finance and Accounting**

- The IT start-up fixed asset additions include computer systems for all employees, servers, LAN, software, telephone systems (PBX), monitors, and printers. There is an expected one-time start-up cost for these items totaling \$634K, which is allocated to the direct programs.

## Human Resources

### Program Scope and Functional Description

The Finance staff will provide a broad range of support to Texas RE management and personnel. Original Texas RE has not had a Human Resources Department, as all Human Resources services are obtained from ERCOT under the MOU. The Texas RE Human Resources department will provide a broad range of support and human resources advice to all Texas RE employees. The HR function consists of overseeing all employee benefit programs and performing or overseeing all traditional human resources activities, including recruiting, on-boarding, developing, and counseling employees, maintaining job descriptions and market salary information, maintaining personnel policies and procedures, tracking existing employee data which traditionally includes personnel histories, skills, capabilities, accomplishments and salary. The HR function also encompasses such responsibilities as maintaining the Payroll Master File, benefits administration, HR Management Information Systems oversight, Training/Learning Management System, and overseeing and managing the employee performance review process and records. This department will play a pivotal role in the structural separation process, as the benefits programs and HR tools are established, and will also coordinate all of the HR-related filings and reporting with all governmental entities.

The Human Resources function will oversee the on-boarding and off-boarding of employees in a manner that ensures company policies are appropriately followed. This department is critical to ensure that Texas RE attracts and retains top talent within the company. Texas RE intends to have one HR Manager and to outsource many of its HR and employee benefit duties to third parties, under the guidance of the HR Manager.

### 2010 Key Assumptions

- Texas RE will formally hire employees upon the Implementation.
- Texas RE will hire a dedicated HR Manager to support Texas RE's human resource needs and oversee the vendors that provide human resources and benefit plan administration services to Texas RE.
- The HR Manager will be hired by Original Texas RE in early 2010 and prior to Implementation, to oversee the selection and implementation of the third-party vendors that will provide the human resource services and benefits programs for Texas RE staff upon Implementation and to help finalize personnel policies and procedures.
- Appropriate employee benefits will be provided for all Texas RE employees, similar to the benefits that were provided by ERCOT to employees of Original Texas RE.

### Funding Requirements — Explanation of Increase (Decrease) Over 2010 Approved Budget

- Indirect program costs are allocated to the direct programs.

2010 Texas ~~Regional~~Reliability Entity Business Plan and Budget

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Section B — 2010 Regional Entity Budget

**Human Resources**

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

Statement of Activities						
2010 Approved Budget & 2010 Amended Budget						
Human Resources - After Structural Separation						
	(1)	(2)	(3)	(4)	(2)+(3)+(4)=(5)	(1)+(5)=(6)
	2010	2010	2010	2010	2010	2010
	Approved	Budget	Budget	Base Budget	Adjustment	Amended
	Budget	Start-Up	Recurring	Reductions	to the Approved	Budget
		Costs	Costs	(MOU Decreases)	Budget	
<b>Funding</b>						
<b>ERO Funding</b>						
ERO Assessments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Penalty Sanctions	-	-	-	-	-	-
<b>Total ERO Funding</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Membership Dues	-	-	-	-	-	-
Testing Fees	-	-	-	-	-	-
Services & Software	-	-	-	-	-	-
Workshops	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-
<b>Total Funding</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Expenses</b>						
<b>Personnel Expenses</b>						
Salaries	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Payroll Taxes	-	-	-	-	-	-
Benefits	-	-	-	-	-	-
Retirement Costs	-	-	-	-	-	-
<b>Total Personnel Expenses</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Meeting Expenses</b>						
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	-	-	-	-	-	-
Conference Calls	-	-	-	-	-	-
<b>Total Meeting Expenses</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Operating Expenses</b>						
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-	-	-	-	-	-
Office Costs	-	-	-	-	-	-
Professional Services	-	-	121,720	-	121,720	121,720
Miscellaneous	-	-	-	-	-	-
Depreciation	-	-	-	-	-	-
<b>Total Operating Expenses</b>	\$ -	\$ -	\$ 121,720	\$ -	\$ 121,720	\$ 121,720
<b>Total Direct Expenses</b>	\$ -	\$ -	\$ 121,720	\$ -	\$ 121,720	\$ 121,720
<b>Indirect Expenses</b>	\$ -	\$ -	\$ (121,720)	\$ -	\$ (121,720)	\$ (121,720)
<b>Other Non-Operating Expenses</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total Expenses</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Change in Assets</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Fixed Assets</b>						
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Computer & Software CapEx	-	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-	-
Equipment CapEx	-	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-	-
<b>(Incr)Dec in Fixed Assets</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Allocation of Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Change in Fixed Assets</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>TOTAL CHANGE IN ASSETS</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

NOTE: The salaries of the indirect employees in C&A, Legal, Information Technology, and Finance have been consolidated for personnel confidentiality and budgeted under G&A.

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2010 Texas Regional Reliability Entity Business Plan and Budget

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**Explanations of Variances – Proposed 2010 Amended Budget versus Approved 2010 Budget**

**Funding Sources**

Indirect program costs are allocated to the direct programs.

**Personnel Expenses**

- There is an HR Manager position that will be hired to perform this function; however that position has been reflected under G&A for personnel confidentiality purposes. The detail for the headcount is reflected in Table 2 within Section B.

**Meeting Expenses**

- None.

**Operating Expenses**

- The increased cost for benefits administration and employee recruitment will be \$71K and \$51K, respectively. The Human Resources program code is new for Texas RE, because benefits administration was provided for Original Texas RE under the MOU (for a lower cost) and was reflected in the 2010 Approved Budget under the General and Administrative Statement of Activities. These increased benefits administration and recruitment costs are net of the amounts paid by Original Texas RE to ERCOT under the MOU, which are included in the amounts reflected under column 4 of the General and Administrative Statement of Activities. Texas RE will use the Human Resource program code in future budgets.

**Indirect Expenses**

- None.

**Other Non-Operating Expenses**

- None.

**Fixed Asset Additions**

- None.

## Finance and Accounting

### 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 the Texas RE budget for controlling funds to implement the Texas RE's objectives and will also review and evaluate the performance of key processes for maintaining tight financial controls in a cost-effective and efficient manner. Finance and Accounting staff will guide the annual budget process for the Texas RE and measure performance of all key aspects of the Texas RE to ensure performance matches or exceeds expectations, including the analysis of trends affecting budget needs and developing periodic financial reports. Finance staff will liaise with ERCOT ISO Finance staff to ensure all finance and budget-related requirements are communicated, met, and adhered to.~~

Texas RE's monthly general ledger close activities will be managed by Texas RE ~~financial~~ Finance and Accounting personnel. The Finance and Accounting staff ~~is~~ are required to ensure Texas RE appropriately accounts for all Statutory and Non-statutory expenses and revenue appropriately. This will involve generating monthly financial reports that will be communicated to the CEO, the department managers and the board.

~~After Implementation, 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 ~~is~~ 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.

### **2010 Key Assumptions**

- Texas RE will ~~remain functionally separate from ERCOT ISO and will not undergo any significant governance or Delegation Agreement changes~~ be required to hire an additional employee to manage this function prior to Implementation, to transition the services that were previously provided to Texas RE through the MOU with ERCOT ISO.

2010 Texas ~~Regional~~ Reliability Entity Business Plan and Budget

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Section B — 2010 Regional Entity Budget

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- ~~• The Delegation Agreement requirements will remain consistent with the current requirements.~~

**2010 Goals and Key Deliverables**

1. Ensure that the accounting ~~and~~ 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 facilitate the Financial Reporting for the Board.
4. Ensure that Texas RE receives an unqualified opinion on the audit of the financial statements.
5. Continue to support ~~and coordinate with~~ NERC finance staff ~~in coordination of to meet~~ quarterly and annual reporting requirements.
6. Review workflow and adjust as required to better enable Texas RE staff operational success.

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

~~In the Over 2010 budget, the funding requirement is decreasing (\$39K). Approved Budget~~

- ~~• Indirect programs allocate their program costs are allocated to the direct programs.~~

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**Section B — 2010 Regional Entity Budget**

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**Finance and Accounting**

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

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Section B — 2010 Regional Entity Budget

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

NOTE: The salaries of the indirect employees in G&A, Legal, Information Technology, and Finance have been consolidated for personnel confidentiality and budgeted under G&A.

2010 Texas ~~Regional~~Reliability Entity Business Plan and Budget

Approved by Board of Directors: August 17, 2009

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Section B — 2010 Regional Entity Budget

Statement of Activities						
2010 Approved Budget & 2010 Amended Budget						
Finance and Accounting - After Structural Separation						
	[1]	[2]	[3]	[4]	[2]+[3]+[4]=[5]	[1]+[5]=[6]
	2010	2010	2010	2010	2010	2010
	Approved	Budget	Budget	Base Budget	Adjustment	Amended
	Budget	Start-Up	Recurring	Reductions	to the Approved	Budget
		Costs	Costs	(MOU Decreases)	Budget	
<b>Funding</b>						
<b>ERO Funding</b>						
ERO Assessments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Penalty Sanctions	-	-	-	-	-	-
<b>Total ERO Funding</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Membership Dues	-	-	-	-	-	-
Testing Fees	-	-	-	-	-	-
Services & Software	-	-	-	-	-	-
Workshops	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-
<b>Total Funding</b>	<b>\$ -</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>\$ -</b>
<b>Meeting Expenses</b>						
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	2,145	-	-	-	-	2,145
Conference Calls	-	-	-	-	-	-
<b>Total Meeting Expenses</b>	<b>\$ 2,145</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,145</b>
<b>Operating Expenses</b>						
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-	-	-	-	-	-
Office Costs	880	-	-	-	-	880
Professional Services	45,281	16,500	189,190	(33,961)	171,729	217,010
Miscellaneous	4,095	-	8,606	-	8,606	12,701
Depreciation	-	-	-	-	-	-
<b>Total Operating Expenses</b>	<b>\$ 50,256</b>	<b>\$ 16,500</b>	<b>\$ 197,796</b>	<b>\$ (33,961)</b>	<b>\$ 180,335</b>	<b>\$ 230,591</b>
<b>Total Direct Expenses</b>	<b>\$ 52,401</b>	<b>\$ 16,500</b>	<b>\$ 197,796</b>	<b>\$ (33,961)</b>	<b>\$ 180,335</b>	<b>\$ 232,736</b>
<b>Indirect Expenses</b>	<b>\$ (52,401)</b>	<b>\$ (16,500)</b>	<b>\$ (197,796)</b>	<b>\$ 33,961</b>	<b>\$ (180,335)</b>	<b>\$ (232,736)</b>
<b>Other Non-Operating Expenses</b>	<b>\$ -</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>\$ -</b>
<b>Change in Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<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>	<b>\$ -</b>	<b>\$ (41,000)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (41,000)</b>	<b>\$ (41,000)</b>
Allocation of Fixed Assets	\$ -	\$ 41,000	\$ -	\$ -	\$ 41,000	\$ 41,000
<b>Change in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>TOTAL CHANGE IN ASSETS</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

NOTE: The salaries of the indirect employees in G&A, Legal, Information Technology, and Finance have been consolidated for personnel confidentiality and budgeted under G&A.

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**Explanations of Variances – 2010 Amended Budget versus ~~2009~~Approved 2010 Budget**

**Funding Sources**

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

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**Personnel Expenses**

- ~~Reflected~~ Texas RE is hiring one (1) Finance and Accounting Manager which is reflected under G&A for personnel confidentiality purposes. ~~The FTE's are segregated on~~ However, the detail for the employee is reflected in Table 2 within Section B.
- The new employee will need to be hired in early 2010 and prior to the approval by FERC of the Delegation Agreement, so that this employee can provide assistance in procuring the needed financial tools and preparing for the transition of the finance and accounting services from ERCOT ISO (under the MOU) to be performed by Texas RE.

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**Meeting Expenses**

- ~~Travel costs are decreasing approximately \$.3K year over year. The REBG has agreed to have at least one meeting via conference call or web-ex~~ None.

**Operating Expenses**

- ~~Office costs are increasing by \$.9K for check stock used for Texas RE's operating account.~~
- ~~The financial statement audit fees for Texas RE are expected to increase by approximately \$9K based on actual results from the 2008 financial statement audit.~~
- ~~Texas RE expects bank fees in 2010 to be approximately \$3K higher year over year. Professional services will need to be procured to supplement the Finance and Accounting function, including: electronic expense reporting of \$21K, timekeeping and processing payroll of \$26K, outsourced internal audit function of \$43K, and increased insurance coverage costs of \$82K. Insurance coverage was previously included in the Original Texas RE's MOU with ERCOT ISO, and so this is a new expense in this category for 2010.~~
- ~~Additionally, there are professional dues included under the treasury function set-up and maintenance fees are budgeted in miscellaneous expense, \$.5K expenses and this is expected to be approximately \$9K for 2010.~~

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**Indirect Expenses**

- ~~Increasing \$13K year over year due to increases in operating expenses~~ None.

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Section B — 2010 Regional Entity Budget

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**Other Non-Operating Expenses**

- N/A

- None.

**Fixed Asset Additions**

- N/A

- Texas RE will need to deploy an accounting system and will need to procure the software as well as implement the software. The cost for this is approximately \$41K and is a start-up cost in year one.

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Section B — 2010 Regional Entity Budget

**Section B — 2010 Budget  
2009 Budget and Projection and 2010 Budget Comparisons**

Table 1

Statement of Activities							
2009 Budget & Projection, and 2010 Budget							
STATUTORY							
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	Percent Variance	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)	Percent Variance
<b>Funding</b>							
<b>ERO Funding</b>							
ERO Assessments	\$ 3,430,700	\$ 3,430,700	\$ -	0.0%	\$ 6,660,377	\$ 3,229,677	94.1%
Penalty Sanctions <sup>(1)</sup>	-	-	-	-	-	-	-
<b>Total ERO Funding</b>	<b>\$ 3,430,700</b>	<b>\$ 3,430,700</b>	<b>\$ -</b>	<b>0.0%</b>	<b>\$ 6,660,377</b>	<b>\$ 3,229,677</b>	<b>94.1%</b>
Membership Dues	-	-	-	-	-	-	-
Testing Fees	-	-	-	-	-	-	-
Services & Software	-	-	-	100.0%	-	-	100.0%
Workshops	70,000	174,029	104,029	148.6%	180,000	110,000	157.1%
Interest	-	4,125	4,125	100.0%	2,000	2,000	100.0%
Miscellaneous	-	-	-	-	-	-	-
<b>Total Funding</b>	<b>\$ 3,500,700</b>	<b>\$ 3,608,854</b>	<b>\$ 108,154</b>	<b>3.1%</b>	<b>\$ 6,842,377</b>	<b>\$ 3,341,677</b>	<b>95.5%</b>
<b>Expenses</b>							
<b>Personnel Expenses</b>							
Salaries	\$ 2,496,968	\$ 2,479,855	\$ (17,114)	-0.7%	\$ 3,351,291	\$ 854,322	34.2%
Payroll Taxes	199,757	191,667	(8,090)	-4.1%	265,543	65,785	32.9%
Benefits	259,628	194,403	(65,225)	-25.1%	360,813	101,184	39.0%
Retirement Costs	356,523	329,741	(26,782)	-7.5%	480,075	123,552	34.7%
<b>Total Personnel Expenses</b>	<b>\$ 3,312,876</b>	<b>\$ 3,195,666</b>	<b>\$ (117,210)</b>	<b>-3.5%</b>	<b>\$ 4,457,721</b>	<b>\$ 1,144,844</b>	<b>34.6%</b>
<b>Meeting Expenses</b>							
Meetings	\$ 105,000	\$ 157,394	\$ 52,394	49.9%	\$ 228,000	\$ 123,000	117.1%
Travel	107,470	117,528	10,057	9.4%	194,392	86,922	80.9%
Conference Calls	-	-	-	-	-	-	-
<b>Total Meeting Expenses</b>	<b>\$ 212,470</b>	<b>\$ 274,922</b>	<b>\$ 62,452</b>	<b>29.4%</b>	<b>\$ 422,392</b>	<b>\$ 209,922</b>	<b>98.8%</b>
<b>Operating Expenses</b>							
Consultants & Contracts	\$ 490,986	\$ 539,074	\$ 48,088	9.8%	\$ 676,331	\$ 185,345	37.7%
Office Rent	517,550	287,392	(230,158)	-44.5%	327,600	(189,950)	-36.7%
Office Costs	18,280	26,581	8,301	45.4%	44,022	25,742	140.8%
Professional Services	428,000	563,134	137,134	32.2%	634,625	208,625	49.0%
Miscellaneous	11,160	13,943	2,783	24.9%	36,236	25,076	224.7%
Depreciation	76,540	76,540	-	0.0%	153,107	76,567	100.0%
<b>Total Operating Expenses</b>	<b>\$ 1,540,516</b>	<b>\$ 1,506,664</b>	<b>\$ (33,852)</b>	<b>-2.2%</b>	<b>\$ 1,871,921</b>	<b>\$ 331,405</b>	<b>21.5%</b>
<b>Total Direct Expenses</b>	<b>\$ 5,065,864</b>	<b>\$ 4,977,252</b>	<b>\$ (88,612)</b>	<b>-1.7%</b>	<b>\$ 6,752,034</b>	<b>\$ 1,686,170</b>	<b>33.3%</b>
<b>Indirect Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>0.0%</b>	<b>\$ -</b>	<b>\$ -</b>	<b>0.0%</b>
<b>Other Non-Operating Expenses</b>	<b>\$ 855,000</b>	<b>\$ -</b>	<b>\$ (855,000)</b>	<b>-100.0%</b>	<b>\$ -</b>	<b>\$ (855,000)</b>	<b>-100.0%</b>
<b>Total Expenses</b>	<b>\$ 5,920,864</b>	<b>\$ 4,977,252</b>	<b>\$ (943,612)</b>	<b>-15.9%</b>	<b>\$ 6,752,034</b>	<b>\$ 831,170</b>	<b>14.0%</b>
<b>Change in Assets</b>	<b>\$ (2,420,163)</b>	<b>\$ (1,368,397)</b>	<b>\$ 1,051,766</b>	<b>-43.5%</b>	<b>\$ 90,343</b>	<b>\$ 2,510,506</b>	<b>-103.7%</b>
<b>Fixed Assets</b>							
Depreciation	\$ (76,540)	\$ (76,540)	\$ -	0.0%	\$ (153,107)	\$ (76,567)	100.0%
Computer & Software CapEx	322,702	354,202	31,500	9.8%	306,500	(16,202)	-5.0%
Furniture & Fixtures CapEx	-	-	-	-	15,215	15,215	-
Equipment CapEx	-	-	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-	-	-
<b>Change in Fixed Assets</b>	<b>\$ (246,162)</b>	<b>\$ (277,662)</b>	<b>\$ (31,500)</b>	<b>12.8%</b>	<b>\$ (168,608)</b>	<b>\$ 77,554</b>	<b>-31.5%</b>
Allocation of Fixed Assets	\$ -	\$ -	\$ -	-	\$ -	\$ -	100.0%
<b>Change in Fixed Assets</b>	<b>\$ (246,162)</b>	<b>\$ (277,662)</b>	<b>\$ (31,500)</b>	<b>12.8%</b>	<b>\$ (168,608)</b>	<b>\$ 77,554</b>	<b>-31.5%</b>
<b>TOTAL CHANGE IN ASSETS</b>	<b>\$ (2,666,325)</b>	<b>\$ (1,646,059)</b>	<b>\$ 1,020,266</b>	<b>-38.3%</b>	<b>\$ (78,264)</b>	<b>\$ 2,588,060</b>	<b>-97.1%</b>

(1) Reflects penalty sanctions collected prior to June 30, 2009.

2010 Texas ~~Regional~~Reliability Entity Business Plan and Budget

Approved by Board of Directors: August 17, 2009

January 18, 2010

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Section B — 2010 Regional Entity Budget

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2010 Texas ~~Regional~~Reliability Entity Business Plan and Budget  
Approved by Board of Directors: ~~August 17, 2009~~  
January 18, 2010

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Section B — 2010 Regional Entity Budget

Statement of Activities						
2010 Approved Budget & 2010 Amended Budget						
STATUTORY + STRUCTURAL SEPARATION BUDGET						
	[1]	[2]	[3]	[4]	[2]+[3]+[4]=[5]	[1]+[5]=[6]
	2010	2010	2010	2010	2010	2010
	Approved	Budget	Budget	Base Budget	Adjustment	Base + Adjustment
	Budget	Start-Up	Recurring	Reductions	to the Approved	to the
		Costs	Costs		Budget	Approved Budget
<b>Funding</b>						
<b>ERO Funding</b>						
ERO Assessments	\$ 6,660,377	\$ 1,308,500	\$ 2,124,004	\$ (948,540)	\$ 2,483,964	\$ 9,144,340
Penalty Sanctions <sup>(1)</sup>	-	-	-	-	-	-
<b>Total ERO Funding</b>	<b>\$ 6,660,377</b>	<b>\$ 1,308,500</b>	<b>\$ 2,124,004</b>	<b>\$ (948,540)</b>	<b>\$ 2,483,964</b>	<b>\$ 9,144,340</b>
Membership Dues	-	-	27,000	-	27,000	27,000
Testing Fees	-	-	-	-	-	-
Services & Software	-	-	-	-	-	-
Workshops	180,000	-	-	-	-	180,000
Interest	2,000	-	-	-	-	2,000
Miscellaneous	-	-	-	-	-	-
<b>Total Funding</b>	<b>\$ 6,842,377</b>	<b>\$ 1,308,500</b>	<b>\$ 2,151,004</b>	<b>\$ (948,540)</b>	<b>\$ 2,510,964</b>	<b>\$ 9,353,340</b>
<b>Expenses</b>						
<b>Personnel Expenses</b>						
Salaries	\$ 3,351,291	\$ -	\$ 490,490	\$ -	\$ 490,490	\$ 3,841,781
Payroll Taxes	265,543	-	37,438	-	37,438	302,981
Benefits	360,813	-	47,960	-	47,960	408,773
Retirement Costs	480,075	-	70,594	-	70,594	550,669
<b>Total Personnel Expenses</b>	<b>\$ 4,457,721</b>	<b>\$ -</b>	<b>\$ 646,482</b>	<b>\$ -</b>	<b>\$ 646,482</b>	<b>\$ 5,104,203</b>
<b>Meeting Expenses</b>						
Meetings	\$ 228,000	\$ -	\$ -	\$ -	\$ -	\$ 228,000
Travel	194,392	-	-	-	-	194,392
Conference Calls	-	-	-	-	-	-
<b>Total Meeting Expenses</b>	<b>\$ 422,392</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 422,392</b>
<b>Operating Expenses</b>						
Consultants & Contracts	\$ 676,331	\$ 200,000	\$ 287,675	\$ (559,523)	\$ (71,848)	\$ 604,483
Office Rent	327,600	-	229,725	(193,425)	36,300	363,900
Office Costs	44,022	-	4,590	-	4,590	48,612
Professional Services	634,625	16,500	597,083	(33,961)	579,622	1,214,246
Miscellaneous	36,236	-	8,606	-	8,606	44,843
Depreciation	153,107	-	146,550	-	146,550	299,657
<b>Total Operating Expenses</b>	<b>\$ 1,871,921</b>	<b>\$ 216,500</b>	<b>\$ 1,274,229</b>	<b>\$ (786,909)</b>	<b>\$ 703,820</b>	<b>\$ 2,575,740</b>
<b>Total Direct Expenses</b>	<b>\$ 6,752,034</b>	<b>\$ 216,500</b>	<b>\$ 1,920,711</b>	<b>\$ (786,909)</b>	<b>\$ 1,350,302</b>	<b>\$ 8,102,336</b>
<b>Indirect Expenses</b>	<b>\$ -</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>\$ -</b>
<b>Total Expenses</b>	<b>\$ 6,752,034</b>	<b>\$ 216,500</b>	<b>\$ 1,920,711</b>	<b>\$ (786,909)</b>	<b>\$ 1,350,302</b>	<b>\$ 8,102,336</b>
<b>Change in Assets</b>	<b>\$ 90,343</b>	<b>\$ 1,092,000</b>	<b>\$ 230,293</b>	<b>\$ (161,631)</b>	<b>\$ 1,160,662</b>	<b>\$ 1,251,005</b>
<b>Fixed Assets</b>						
Depreciation	\$ (153,107)	\$ -	\$ (146,550)	\$ -	\$ (146,550)	\$ (299,657)
Computer & Software CapEx	306,500	775,000	-	-	775,000	1,081,500
Furniture & Fixtures CapEx	15,215	317,000	-	-	317,000	332,215
Equipment CapEx	-	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-	-
<b>Change in Fixed Assets</b>	<b>\$ (168,608)</b>	<b>\$ (1,092,000)</b>	<b>\$ 146,550</b>	<b>\$ -</b>	<b>\$ (945,450)</b>	<b>\$ (1,114,058)</b>
Allocation of Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Change in Fixed Assets</b>	<b>\$ (168,608)</b>	<b>\$ (1,092,000)</b>	<b>\$ 146,550</b>	<b>\$ -</b>	<b>\$ (945,450)</b>	<b>\$ (1,114,058)</b>
<b>TOTAL CHANGE IN ASSETS</b>	<b>\$ (78,265)</b>	<b>\$ -</b>	<b>\$ 376,843</b>	<b>\$ (161,631)</b>	<b>\$ 215,212</b>	<b>\$ 136,947</b>

<sup>(1)</sup> Reflects penalty sanctions collected prior to June 30, 2009.

**Personnel Analysis**

FTEs are defined as full-time equivalent units. Fractional FTEs reflect time tracking and expected results of time-tracking.

2010 Texas Regional Reliability Entity Business Plan and Budget

Approved by Board of Directors: August 17, 2009

January 18, 2010

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Section B — 2010 Regional Entity Budget

Table 2

Total FTEs by Program Area	Budget 2009	Projection 2009	Direct FTEs 2010 Budget	Shared FTEs <sup>1</sup> 2010 Budget	Total FTEs 2010 Budget	Change from 2009 Budget
<b>STATUTORY</b>						
<b>Operational Programs</b>						
Reliability Standards	1.70	1.84	0.00	2.06	2.06	0.36
Compliance and Organization Registration and Certification	14.15	15.01	0.00	21.74	21.74	7.59
Training and Education	0.60	0.84	0.00	0.97	0.97	0.37
Reliability Assessment and Performance Analysis	2.20	2.15	0.00	2.44	2.44	0.24
Situational Awareness and Infrastructure Security	1.50	1.43	0.00	3.03	3.03	1.53
<b>Total FTEs Operational Programs</b>	<b>20.15</b>	<b>21.27</b>	<b>0.00</b>	<b>30.24</b>	<b>30.24</b>	<b>10.09</b>
<b>Administrative Programs</b>						
General & Administrative	1.70	1.85	0.00	1.05	1.05	-0.65
Information Technology	1.70	1.29	0.00	0.69	0.69	-1.01
Legal and Regulatory	2.55	1.67	0.00	1.17	1.17	-1.38
Accounting	0.85	0.85	0.00	0.85	0.85	0.00
<b>Total FTEs Administrative Programs</b>	<b>6.80</b>	<b>5.66</b>	<b>0.00</b>	<b>3.76</b>	<b>3.76</b>	<b>-3.04</b>
<b>Total FTEs</b>	<b>26.95</b>	<b>26.93</b>	<b>0.00</b>	<b>34.00</b>	<b>34.00</b>	<b>7.05</b>

<sup>1</sup>A shared FTE is defined as only Texas Regional Entity employees who performs both Statutory and Non-statutory activities; however not for a registered function (e.g. Reliability Coordinator).

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

Section B — 2010 Regional Entity Budget

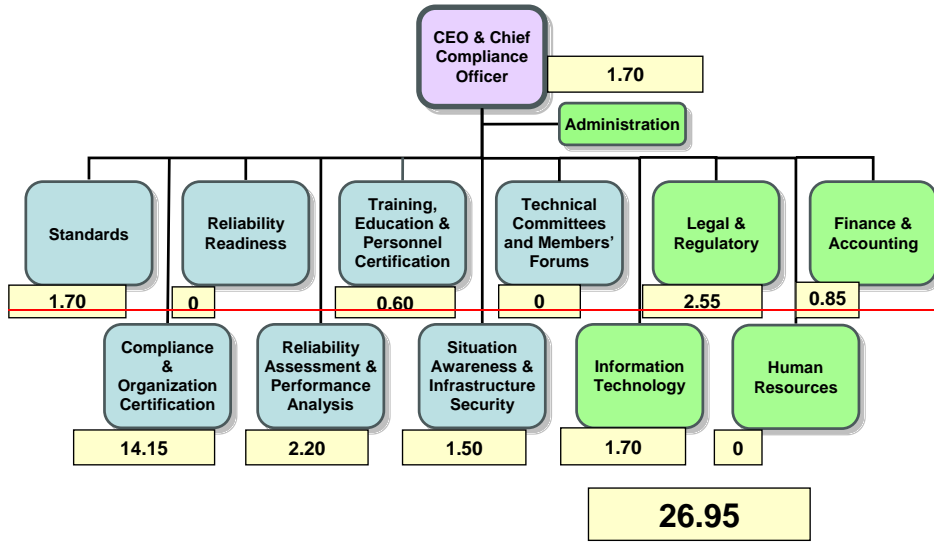
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**2009 Organizational Chart (Statutory)**

**Table 3**



Section B — 2010 Regional Entity Budget



**Section B — 2010 Regional Entity Budget**

Total FTE's by Program Area	Approved 2010	Direct FTEs 2010 Budget	Shared FTEs <sup>1</sup> 2010 Budget	Total FTEs 2010 Budget	Change From Approved 2010 Budget
<b>STATUTORY</b>					
<b>Operational Programs</b>					
Reliability Standards	2.06	0.00	2.06	2.06	0.00
Compliance and Organization Registration and Certification	21.74	0.00	21.74	21.74	0.00
Training and Education	0.97	0.00	0.97	0.97	0.00
Reliability Assessment and Performance Analysis	2.44	0.00	2.44	2.44	0.00
Situational Awareness and Infrastructure Security	3.03	0.00	3.03	3.03	0.00
<b>Total FTEs Operational Programs</b>	<b>30.24</b>	<b>0.00</b>	<b>30.24</b>	<b>30.24</b>	<b>0.00</b>
<b>Administrative Programs</b>					
Member Forums	0.00	0.00	0.00	0.00	0.00
General & Administrative	1.05	0.00	1.05	1.05	0.00
Information Technology	0.69	0.00	2.49	2.49	1.80
Legal and Regulatory	1.17	0.00	3.17	3.17	2.00
Human Resources	0.00	0.00	0.85	0.85	0.85
Accounting	0.85	0.00	1.70	1.70	0.85
<b>Total FTEs Administrative Programs</b>	<b>3.76</b>	<b>0.00</b>	<b>9.26</b>	<b>9.26</b>	<b>5.50</b>
<b>Total FTEs</b>	<b>34.00</b>	<b>0.00</b>	<b>39.50</b>	<b>39.50</b>	<b>5.50</b>

<sup>1</sup>A shared FTE is defined as only Texas Regional Entity employees who performs both Statutory and Non-statutory activities; however not for a registered function (e.g. Reliability Coordinator).

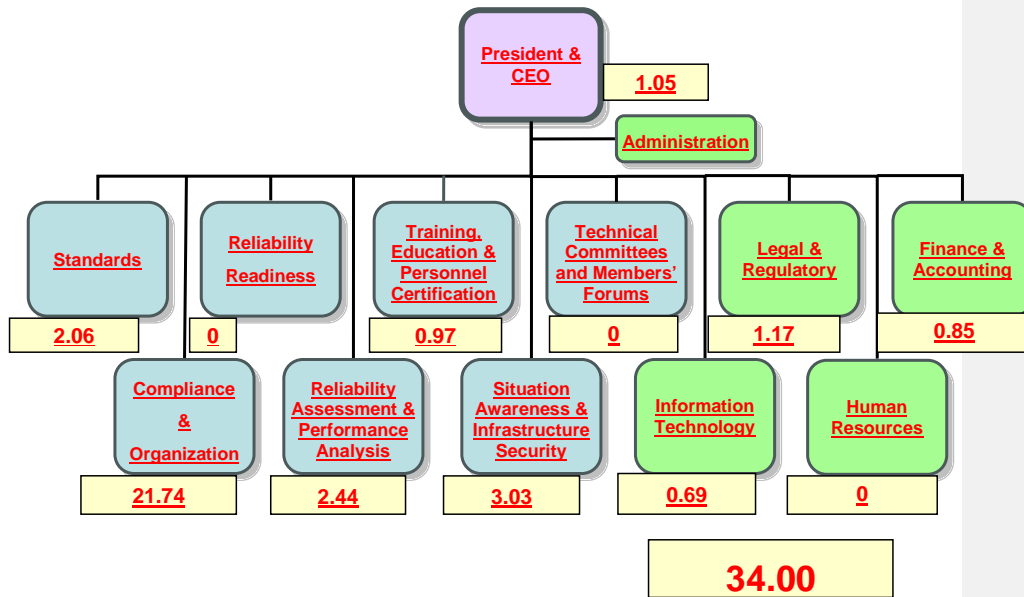
\* NOTE: The FTEs for Administration Departments are reflected as staffed in this exhibit. The salary and related expenses in the statement of activities has been consolidated to ensure salary confidentiality.

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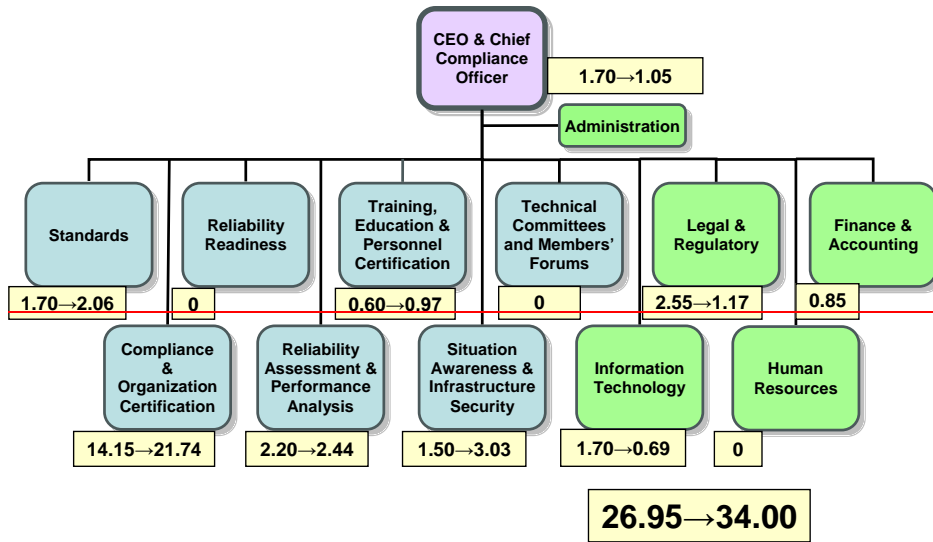
2010 Organizational Chart (Statutory) – Approved 2010 Budget

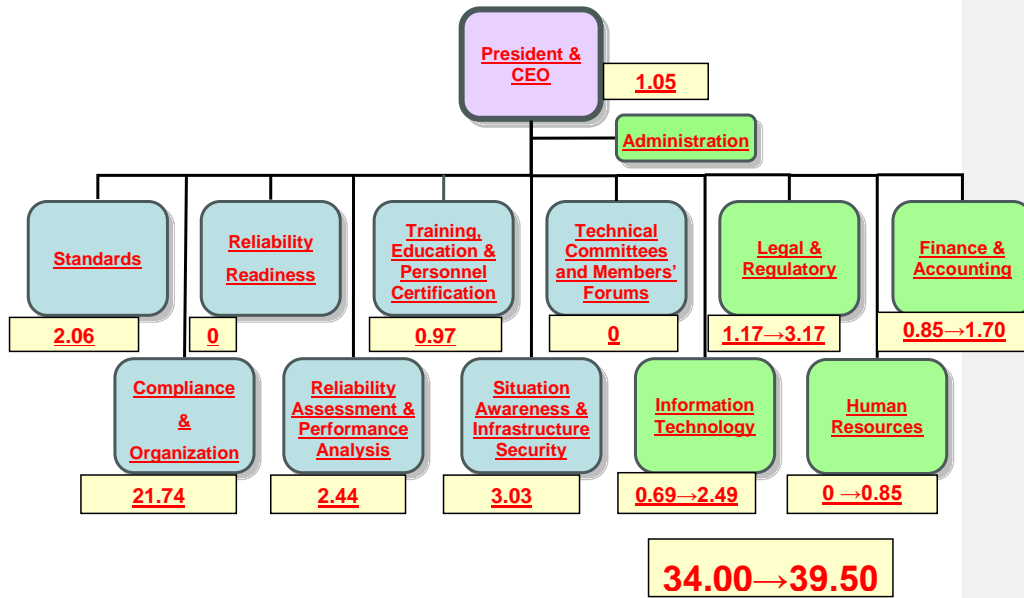
Table 3



**2010 Organizational Chart (Statutory) – Proposed 2010 Budget versus Approved 2010 Budget**

**Table 4**





**Reserve Balance**

**Table 5**

<b>Working Capital Reserve Analysis 2009-2010</b>	
<b>STATUTORY</b>	
<b>Beginning Working Capital Reserve (Deficit), December 31, 2008</b>	2,666,325
Penalty sanctions being held to be used as offset to 2010 assessments <sup>1</sup>	0
Plus: 2009 ERO Funding (from LSEs or designees)	3,430,700
Plus: 2009 Other funding sources	178,154
Less: 2009 Regulatory Liability Projected	(165,266)
Less: 2009 Projected expenses & capital expenditures	(5,254,914)
<b>Projected Working Capital Reserve (Deficit), December 31, 2009</b>	<b>855,000</b>
<b>Desired Working Capital Reserve, December 31, 2010</b>	<b>1,370,718</b>
Less: Projected Working Capital Reserve, December 31, 2009	(855,000)
Less: LT Regulatory Liability Release	(593,983)
<b>Increase(decrease) in assessments to achieve desired Working Capital Reserve</b>	<b>(78,264)</b>
2010 Assessment for Expenses and Capital Expenditures	6,920,642
Less: Penalty Sanctions <sup>1</sup>	0
Less: Other Funding Sources	(182,000)
Adjustment to achieve desired Working Capital Reserve	(78,264)
<b>2010 Assessment</b>	<b>6,660,377</b>

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

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

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**Working Capital Reserve Analysis 2010**

STATUTORY

<b>Beginning Working Capital Reserve (Deficit), December 31, 2008</b>	2,666,325
Penalty sanctions being held to be used as offset to 2010 assessments <sup>1</sup>	0
Plus: 2009 ERO Funding (from LSEs or designees)	3,430,700
Plus: 2009 Other funding sources	178,154
Less: 2009 Regulatory Liability Projected	(165,266)
Less: 2009 Projected expenses & capital expenditures	(5,254,914)
 <b>Projected Working Capital Reserve (Deficit), December 31, 2009</b>	 <b>855,000</b>
 <b>Desired Working Capital Reserve, December 31, 2010</b>	 <b>1,585,929</b>
Less: Projected Working Capital Reserve, December 31, 2009	(855,000)
Less: LT Regulatory Liability Release	(593,983)
 <b>Increase(decrease) in assessments to achieve desired Working Capital Reserve</b>	 <b>136,947</b>
 2010 Assessment for Expenses and Capital Expenditures	 9,216,394
Net Reduction in Working Capital	
Less: Penalty Sanctions <sup>1</sup>	0
Less: Other Funding Sources <sup>2</sup>	(209,000)
Adjustment to achieve desired Working Capital Reserve	136,947
 <b>2010 Assessment</b>	 <b>9,144,340</b>

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

<sup>2</sup> Represents an approximately 75-day cash reserve.

## Regional Entity Assessment Analysis

### Assessments by Country

Table 6

Data Year	Regional Entity	Total NEL	U.S. NEL	Canada NEL	Mexico NEL	% of RE Total	US Total	Canada Total	Mexico Total
Summary by Regional Entity									
2008	FRCC	-							
2008	MRO	-							
2008	NPCC	-							
2008	RFC	-							
2008	SERC	-							
2008	SPP	-							
2008	TRE	310,856,852	310,856,852			100.0%	100.0%		
2008	WECC	-							
TOTAL		310,856,852	310,856,852	-	-	100.0%	100.0%	0%	0%

Data Year	Regional Entity	Total NEL	U.S. NEL	Canada NEL	Mexico NEL	% of RE Total	US Total	Canada Total	Mexico Total
Summary by Regional Entity									
2008	FRCC	-							
2008	MRO	-							
2008	NPCC	-							
2008	RFC	-							
2008	SERC	-							
2008	SPP	-							
2008	TRE	310,856,852	310,856,852			100.0%	100.0%		
2008	WECC	-							
TOTAL		310,856,852	310,856,852	-	-	100.0%	100.0%	0%	0%



### Breakdown by Statement of Activity Sections

Full disclosures of all penalties received prior to July 1, 2009 are detailed below, including the Company, the amount, and the date received.

Allocation Method: Penalty sanctions received have been allocated to the following Statutory programs to reduce assessments: Reliability Standards; Compliance Monitoring & Enforcement and Organization Registration & Certification; Reliability Assessments and Performance Analysis; Training, Education and Operator Certification; and Situational Awareness and Infrastructure Security. Penalty sanctions are allocated based upon the number of FTEs in the Program divided by the aggregate total FTEs in the Programs receiving the allocation.

**Table B-1**

Penalty Sanctions Received Prior to June 30, 2009	Date Receive	Amount Received
Name of Entity		
NOT APPLICABLE		
Total Penalties Received		\$ -

Penalty Sanctions Received Prior to June 30, 2009	Date Receive	Amount Received
Name of Entity		
NOT APPLICABLE		
Total Penalties Received		\$ -

Supplemental Funding

Table B-2

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

Outside Funding Breakdown By Program (excluding ERO Assessments & Penalty Sanctions)	2010 Approved Budget	2010 Proposed Budget	Variance 2010 Approved Budget v 2010 Proposed Budget	Variance %
<b>Training and Education</b>				
Operations Training Seminar	\$ 180,000	\$ 180,000	\$ -	0.00%
<b>Total</b>	<b>\$ 180,000</b>	<b>\$ 180,000</b>	<b>\$ -</b>	<b>0.00%</b>
<b>General and Administrative</b>				
Membership Fees	\$ -	\$ 27,000	\$ 27,000	100.00%
Interest Income	\$ 2,000	\$ 2,000	\$ -	0.00%
<b>Total</b>	<b>\$ 2,000</b>	<b>\$ 29,000</b>	<b>\$ 27,000</b>	<b>1350.00%</b>
<b>Total Outside Funding</b>	<b>\$ 182,000</b>	<b>\$ 209,000</b>	<b>\$ 27,000</b>	<b>14.84%</b>

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**Explanation of Significant Variances – 2010 Proposed Amended Budget versus ~~2009~~2010 Approved Budget**

- ~~The most significant increase is resulting from the change in venue for the Operations Training Seminar to an offsite location. The 2009 budget assumed that Texas RE could use ERCOT ISO facilities for the OTS; however due to space constraints, Texas RE secured an alternate venue in 2009. Texas RE collected increased registration fees to fund the increased Operations Training Seminar expenses. In 2010, the year-over-year budget increase reflects that continuing assumption and the resulting expense increase will be funded by registration fees from attendees. The increase is expected to be \$110K.~~
- ~~There is approximately \$2K of interest income budgeted in 2010. The assumption used to budget the interest income was based on Texas RE's current interest income rate applied to the budgeted cash balance for 2010.~~
- Texas RE members will pay nominal annual membership fee. Original Texas RE did not receive any portion of the ERCOT ISO membership fees.

Personnel Expenses

Table B-3

Personnel Expenses	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
<b>Salaries</b>					
Salary	\$ 2,496,968	\$ 2,479,855	\$ 3,351,291	\$ 854,322	34.2%
<b>Total Salaries</b>	<b>\$ 2,496,968</b>	<b>\$ 2,479,855</b>	<b>\$ 3,351,291</b>	<b>\$ 854,322</b>	<b>34.2%</b>
<b>Total Payroll Taxes</b>	<b>\$ 199,757</b>	<b>\$ 191,667</b>	<b>\$ 265,543</b>	<b>\$ 65,785</b>	<b>32.9%</b>
<b>Benefits</b>					
Life, Health, Vision, etc.	\$ 259,628	\$ 194,403	\$ 360,813	\$ 101,184	39.0%
<b>Total Benefits</b>	<b>\$ 259,628</b>	<b>\$ 194,403</b>	<b>\$ 360,813</b>	<b>\$ 101,184</b>	<b>39.0%</b>
<b>Retirement</b>					
401(k) Contr. & Employee Matching	\$ 356,523	\$ 329,741	\$ 480,075	\$ 123,552	34.7%
<b>Total Retirement</b>	<b>\$ 356,523</b>	<b>\$ 329,741</b>	<b>\$ 480,075</b>	<b>\$ 123,552</b>	<b>34.7%</b>
<b>Total Personnel Costs</b>	<b>\$ 3,312,878</b>	<b>\$ 3,195,666</b>	<b>\$ 4,457,721</b>	<b>\$ 1,144,844</b>	<b>34.6%</b>
<b>FTEs</b>	26.95	26.93	34.00	7.07	26.2%
<b>Cost per FTE</b>					
Salaries	\$ 92,652	\$ 92,085	\$ 98,561	5,909	6.4%
Payroll Taxes	7,412	7,117	7,810	397	5.4%
Benefits	9,634	7,219	10,611	978	10.1%
Retirement	13,229	12,244	14,119	890	6.7%
<b>Total Cost per FTE</b>	<b>\$ 122,927</b>	<b>\$ 118,666</b>	<b>\$ 131,101</b>	<b>\$ 8,174</b>	<b>6.6%</b>

Section **AB** — 2010 **Business Plan** Regional Entity Budget

Personnel Expenses	2010 Approved Budget	2010 Proposed Budget	Variance 2010 Approved Budget v 2010 Proposed Budget	Variance %
<b>Salaries</b>				
Salary	\$ 3,351,291	\$ 3,841,781	\$ 490,490	14.6%
<b>Total Salaries</b>	<b>\$ 3,351,291</b>	<b>\$ 3,841,781</b>	<b>\$ 490,490</b>	<b>14.6%</b>
<b>Total Payroll Taxes</b>	<b>\$ 265,543</b>	<b>\$ 302,981</b>	<b>\$ 37,438</b>	<b>14.1%</b>
<b>Benefits</b>				
Life, Health, Vision, etc.	\$ 360,813	\$ 408,773	\$ 47,960	13.3%
<b>Total Benefits</b>	<b>\$ 360,813</b>	<b>\$ 408,773</b>	<b>\$ 47,960</b>	<b>13.3%</b>
<b>Retirement</b>				
401(k) Contr. & Employee Matching	\$ 480,075	\$ 550,669	\$ 70,594	14.7%
<b>Total Retirement</b>	<b>\$ 480,075</b>	<b>\$ 550,669</b>	<b>\$ 70,594</b>	<b>14.7%</b>
<b>Total Personnel Costs</b>	<b>\$ 4,457,721</b>	<b>\$ 5,104,203</b>	<b>\$ 646,482</b>	<b>14.5%</b>
<b>FTEs</b>	34.00	39.50	5.50	16.2%
<b>Cost per FTE</b>				
Salaries	\$ 98,561	\$ 97,255	(1,306)	-1.3%
Payroll Taxes	7,810	7,670	(140)	-1.8%
Benefits	10,611	10,348	(263)	-2.5%
Retirement	14,119	13,940	(179)	-1.3%
<b>Total Cost per FTE</b>	<b>\$ 131,101</b>	<b>\$ 129,213</b>	<b>\$ (1,888)</b>	<b>-1.4%</b>

**Explanation of Significant Variances – 2010 Proposed Amended Budget versus ~~2009~~2010 Approved Budget**

- The most significant increase is related to the hiring of 8.0 additional staff (7.05 FTEs Statutory, .95 FTEs Non-statutory) in the compliance, situational awareness and CIP areas. Additionally, there are meritis, promotion and market adjustments budgeted in 2010 for existing Texas RE personnel. The budget assumed 3% merit, 1% promotion and 2% for market adjustments. Finally, with respect to the health insurance benefit, the cost per participant is expected to increase, year-over-year, reason for the 1.4% decrease is that the average salary of the existing professional staff is higher than the additional corporate support staff being hired to perform the administrative services that were performed for Original Texas RE under its MOU with ERCOT ISO.

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Consultants and Contracts

Table B-4

Consultants	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
<b>Consultants</b>					
Recruitment	\$ 6,000	\$ -	\$ -	\$ (6,000)	-100.00%
<b>Consultants Total</b>	<b>\$ 6,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (6,000)</b>	
Contracts	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
<b>Contracts</b>					
Corporate Support Allocation	\$ 280,654	\$ 330,946	\$ 388,205	\$ 107,551	38.32%
IT Services & Other (under professional services in 2009 Forecast & 2010 Budget)	3,932			(3,932)	-100.00%
IT Administration	200,400	208,128	288,126	87,726	43.78%
<b>Contracts Total</b>	<b>\$ 484,986</b>	<b>\$ 539,075</b>	<b>\$ 676,331</b>	<b>\$ 191,345</b>	<b>39.45%</b>
<b>Total Consulting and Contracts</b>	<b>\$ 490,986</b>	<b>\$ 539,075</b>	<b>\$ 676,331</b>	<b>\$ 185,345</b>	<b>37.75%</b>

Consultants	2010 Approved Budget	2010 Proposed Budget	Variance 2010 Approved Budget v 2010 Proposed Budget	Variance %
<b>Consultants</b>				
Recruitment	\$ -	\$ -	\$ -	
<b>Consultants Total</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	

Contracts	Budget 2010	2010 Proposed Budget	Variance 2010 Approved Budget v 2010 Proposed Budget	Variance %
<b>Contracts</b>				
Corporate Support Allocation (MOU)	\$ 388,205	\$ 44,777	\$ (343,428)	-88.47%
Board Related Search & Support Fees	-	487,675	487,675	100.00%
IT Administration (MOU)	288,126	72,032	(216,095)	-75.00%
<b>Contracts Total</b>	<b>\$ 676,331</b>	<b>\$ 604,483</b>	<b>\$ (71,848)</b>	<b>-10.62%</b>
<b>Total Consulting and Contracts</b>	<b>\$ 676,331</b>	<b>\$ 604,483</b>	<b>\$ (71,848)</b>	<b>-10.62%</b>

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**Explanation of Significant Variances – 2010 Proposed Amended Budget versus 2009 Approved Budget**

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- Board related costs are increasing due to the recruitment expenses included for start-up including four independent directors, as well as having overlapping board fees (Original Texas RE and Texas RE) during a portion of year one. The most significant board related increase is related to the corporate offset by reductions in HR support (Memorandum of Understanding) allocation, Finance support, Insurance coverage, and IT administration per provided under the MOU between Texas RE and ERCOT ISO. There is a cost adjustment year over year to reflect increasing prices; however the largest component of the increase is directly attributed to increasing FTEs. The costs associated with the MOU for increases to FTEs are approximately \$148K of the \$185K increase.
- All of the MOU increase reflected in table B-4 above has been offset by the savings for rent and facilities, totaling \$190K reflected under table B-5 below. The net effect of the MOU year over year is a reduction of \$5K is \$72K

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**Table B-5**

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

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

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

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Section **AB** — 2010 ~~Business Plan~~ Regional Entity Budget

**Table B-6**

Office Costs	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Office Supplies	\$ 8,400	\$ 13,333	\$ 16,002	\$ 7,602	90.50%
<del>Cellular Phones</del>	<del>5,080</del>	<del>6,137</del>	<del>14,040</del>	<del>8,960</del>	<del>176.38%</del>
Postage	1,200	1,500	1,800	600	50.00%
Express Shipping	1,200	4,811	7,980	6,780	565.00%
Stationary Forms	1,200	400	3,000	1,800	150.00%
Reports - Graphics	1,200	400	1,200	-	0.00%
<b>Total Office Costs</b>	<b>\$ 18,280</b>	<b>\$ 26,581</b>	<b>\$ 44,022</b>	<b>\$ 25,742</b>	<b>140.82%</b>

Office Rent	2010 Approved Budget	2010 Proposed Budget	Variance 2010 Approved Budget v 2010 Proposed Budget	Variance %
Office Rent & Facilities	\$ 327,600	\$ 261,900	(65,700)	-20.05%
2010 Office Move and Improvements	-	50,000	50,000	100.00%
2010 Office Move Project Management Expense	-	25,000	25,000	100.00%
MRC, Standards, and Board Meeting Room	-	27,000	27,000	100.00%
<b>Total Office Rent</b>	<b>\$ 327,600</b>	<b>\$ 363,900</b>	<b>\$ 36,300</b>	<b>11.08%</b>

Explanation of Significant Variances – 2010 ~~Proposed Amended~~ Budget versus **2009 Budget**

- ~~Texas RE is also projecting a significant increase in office supplies to accommodate new employees and additional materials for Texas RE's deliverables \$4K+ \$4K= \$8K.~~
- ~~Express shipping is expected to be significantly higher in 2010 due to the need to send additional materials via FedEx \$7K. **Approved Budget**~~
- ~~Texas RE is also projecting a significant increase in report printing~~
- ~~Texas RE expects that Office Rent & Facilities support will require be more than the approved budget amount after Texas RE structurally separates, due to the need for Texas RE to acquire additional report printing services \$2K.~~
- ~~Adding cell phones for all audit lead, senior level, managers space and above, resulting in a \$9K increase year-over-year the expiration of the lease at the end of 2010.~~

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**Table B-76**

Professional Services	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Outside Legal	\$ 300,000	\$ 300,000	\$ 300,000	\$ -	0.00%
Accounting & Auditing Fees	36,000	41,976	45,281	9,281	25.78%
<del>IT Professional Services</del>	<del>50,000</del>	<del>152,112</del>	<del>207,344</del>	<del>157,344</del>	<del>314.69%</del>
RSVP Hosting	10,000	10,000	10,000	-	0.00%
Professional Engineering Services	-	23,046	-	-	0.00%
Recruitment for TFE Positions	-	-	12,000	12,000	0.00%
Other Professional Services	30,000	36,000	60,000	30,000	100.00%
<b>Total Services</b>	<b>\$ 426,000</b>	<b>\$ 563,134</b>	<b>\$ 634,625</b>	<b>\$ 208,625</b>	<b>12.70%</b>

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Office Costs	2010 Approved Budget	2010 Proposed Budget	Variance 2010 Approved Budget v 2010 Proposed Budget	Variance %
Office Supplies	\$ 16,002	\$ 16,766	\$ 764	4.77%
Cellular Phones	14,040	14,040	-	0.00%
Postage	1,800	3,713	1,913	106.28%
Express Shipping	7,980	7,980	-	0.00%
Stationary Forms	3,000	4,913	1,913	63.77%
Reports - Graphics	1,200	1,200	-	0.00%
<b>Total Office Costs</b>	<b>\$ 44,022</b>	<b>\$ 48,612</b>	<b>\$ 4,590</b>	<b>10.43%</b>

**Explanation of Significant Variances – 2010 Proposed Amended Budget versus ~~2009~~ 2010 Approved Budget**

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- Texas RE is increasing the amount for office supplies to reflect the additional employees \$1K.
- Additionally, postage costs are estimated to be higher due to additional mailings required related to tax filings, corporate governance, and employee communications. The estimated increase is expected to be approximately \$2K.
- Finally, employee forms needed for HR purposes, financial documents, and check stock will be result in approximately a \$2K increase in office costs for Texas RE.

**Table B-7**

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Section AB — 2010 Business Plan Regional Entity Budget

Professional Services	2010 Approved Budget	2010 Proposed Budget	Variance 2010 Approved Budget v 2010 Proposed Budget	Variance %
Outside Legal	\$ 300,000	\$ 390,000	\$ 90,000	30.00%
Accounting & Auditing Fees	45,281	87,820	42,539	93.95%
Accounting Services Fees	-	46,582	46,582	100.00%
Insurance / Risk Management	-	82,608	82,608	100.00%
IT Professional Services	207,344	388,217	180,873	87.23%
RSVP Hosting	10,000	10,000	-	0.00%
Recruitment	12,000	63,000	51,000	425.00%
Other Professional Services	60,000	60,000	-	0.00%
Benefits Administration	-	70,720	70,720	100.00%
Security	-	15,300	15,300	100.00%
<b>Total Services</b>	<b>\$ 634,625</b>	<b>\$ 1,214,246</b>	<b>\$ 579,621</b>	<b>115.62%</b>

**Explanation of Significant Variances – 2010 Proposed Amended Budget versus 2010 Approved Budget**

- Outside legal expenses are expected to increase \$90K over the approved 2010 budget due to the need to utilize outside counsel in connection with the projected increased number of enforcement or registration disputes. This increased cost is not due to the formation of Texas RE as a separate entity.
- Audit fees are increasing in 2010 by \$94.3K related to the financial statement audit.
- IT professional services are increasing \$157K year-over-year related to web hosting redundancy that will ensure Texas RE's web presence and portal tools remain safe, secure and operational with a full backup hosting solution.
- Texas RE will be provisioning establishing an additional \$30K for professional services under the G&A department. This internal audit function for which an external service provider will be used. Additionally, accounting services expenses for timekeeping, expense reporting, payroll processing are expected to increase by \$47K, because the costs for any technical advice and counsel required by any program within Texas RE on an as-needed basis.
- Finally, there is an increase of \$12K for 2010 these are higher than when provided to support the addition of the TFE program within Original Texas RE through the MOU with ERCOT ISO.
- Insurance/Risk Management is slated to increase approximately \$83K because the costs are higher than when provided to Original Texas RE through the MOU with ERCOT ISO.
- IT professional services are increasing \$181K because these costs are higher than when provided to Original Texas RE through the MOU with ERCOT ISO.
- Texas RE recruitment expenses are expected to increase \$51K in professional services. Recruitment expense was previously included in the Original Texas RE's MOU costs under Consultants and Contracts which reflects a decrease in expense.

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Section AB — 2010 Business Plan Regional Entity Budget

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- Benefits Administration will increase \$71K, because the cost of similar benefits is higher than when provided to Original Texas RE through the MOU with ERCOT ISO. This is as a result of the structural separation of Texas RE from ERCOT ISO.
- Security is being estimated to increase to \$15K, because this cost is higher than when provided to Original Texas RE through the MOU with ERCOT ISO.

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Section **AB** — 2010 ~~Business Plan~~Regional Entity Budget

**Table B-8**

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

Other Non-Operating Expenses	2010 Approved Budget	2010 Proposed Budget	Variance 2010 Approved Budget v 2010 Proposed Budget	Variance %
Cash Reserve	\$ -	\$ -	\$ -	-
<b>Total Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>-</b>

**Explanation of Significant Variances – 2010 Proposed Amended Budget versus ~~2009~~2010 Approved Budget**

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

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

(in whole dollars)			
Increase (Decrease)	<del>2009</del> 2010 <u>Approved</u> Budget	<del>2009</del> 2010 <u>Amended</u> Budget	
Total FTEs	<del>5.056</del> 6.0050	<del>6.0050</del> 6.0050	<del>-0.950</del> -0.950
Total Direct Expenses	<del>\$874,997</del> \$1,086,772	<del>\$1,086,772</del> \$1,112,132	<del>\$244,775</del> \$25,360
Total Indirect Expenses			
Total Expenses	<del>\$874,997</del> \$1,086,772	<del>\$1,453,772</del> \$1,112,132	<del>\$284,775</del> \$25,360

**Non-statutory Functional Scope**

In addition to the Statutory functions, Texas RE ~~also provides~~ will provide compliance support to the Public Utility Commission of Texas (PUCT) ~~through December 31, 2010.~~ These services include auditing, event analysis, complaint investigations and monthly metric monitoring to identify violations of protocols. In addition, Texas RE also monitors the stakeholder market rules creation and modification process and comments on proposed changes to the protocols that affect reliability. Texas RE also works closely with the PUCT to identify new risks to the BPS and craft strategies to address these risks from the regulatory perspective.

Texas RE does not perform any enforcement activities for the PUCT. Once a potential violation is identified by Texas RE it is reported to the PUCT ~~and they follow,~~ which follows up with all enforcement activities. Texas RE may be required to assist the PUCT with analysis of our findings and will support the PUCT in ~~their~~ the enforcement processes, if needed; however, all enforcement is at the sole discretion of the PUCT.

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

~~Texas RE added one FTE to support the Non-statutory work in 2009. It is anticipated that the work related to the transition to the Nodal market will be higher in 2010 by approximately 1 FTE. Texas RE estimates approximately (15) Original Texas RE added one-half of an FTE (0.5 FTEs) in its 2010 Approved Budget to support the Non-statutory corporate support work in 2010.~~

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**Section B — 2010 Regional Entity Budget C — Non-Statutory**

Texas RE estimates approximately (14%) percent of Texas RE staff time will be dedicated to monitoring, auditing, assessing, investigating, and reporting on compliance with the ERCOT Protocols and commenting on ERCOT Protocol revision requests. Funding for these Non-statutory activities is provided through the ERCOT System Administration Fee, which is based upon the fee factor approved by the ERCOT Board and the PUCT to support ERCOT activities and Texas RE Non-statutory activities which are subject to PUCT oversight.

Texas RE generated its budget to include the Non-statutory related work of the PUCT in its 2010 Amended Budget. However, the Non-statutory work performed by Texas RE may potentially transition to another entity selected by the PUCT effective December 31, 2010.

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**Major 2010 Assumptions and Cost Impacts – Proposed 2010 Amended Budget versus Approved 2010 Budget**

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**Funding Sources**

- Funding ~~is will be~~ received ~~only~~ through a contract with the PUCT or a three-way contract with the PUCT and ERCOT ISO to pay for these expenses.
- ~~Texas RE will prepare for the Nodal market conversion.~~

**Personnel Expenses**

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- Non-statutory Personnel expenses-Expenses are increasing primarily due to adding .9550 FTEs of labor to the Non-statutory function. ~~Additionally, the budget assumes 3% merit, 1% promotion and 2% for market adjustments structural separation. This results in a \$70K increase to expenses (which is offset by the \$45K reduction in operating expenses), resulting in a change of a \$25K increase.~~

**Meeting Expenses**

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

**Operating Expenses**

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- ~~Texas RE is estimating an increase in the MOU related Support service expenses incurred for support consulting, and other professional services and IT administration of \$84K for 2010. This is based primarily on the increased FTEs and the associated expenses.~~
- ~~Rent and facilities services expenses are expected related to decrease \$56K for 2010 Texas RE's new corporate structure will require \$45K less expense, due to a lower rentable square foot rate we obtained in 2009 for rent and facilities.~~
- ~~Professional services are being budgeted the elimination of the MOU expenses paid to decrease \$32K.~~

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**Section B — 2010 Regional Entity Budget C — Non-Statutory**

- Finally, depreciation is being budgeted in 2010 ERCOT and a reduction to reflect the depreciable assets that are held by Texas RE (software) outside legal expenses.

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**2010 Primary Goals and Objectives —**

1. Implement the 2010 protocol audit plan per the posted schedule and with a high level of quality and consistency.
2. Maintain high quality and effective organization of all audit and investigation work papers, audit reports and potential violation findings.
3. Review and assess system disturbances for potential violations of the ERCOT Protocols and report all findings to the PUCT.
4. Meet with the PUCT monthly to provide a complete report on work in progress as well as all audit reports and potential violation files.
5. Support the PUCT efforts to ensure adequate regulatory oversight in place for the Nodal Market.
6. Create and provide Nodal training for Texas RE staff and the PUCT.
7. Provide a workshop to educate stakeholders on compliance issues related to the Nodal Market transition and implementation. Continue to monitor and participate in the ERCOT ISO committee process.

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**2010 Approved Budget and Projection and 2010 Proposed Amended Budget Comparisons**

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Section B — 2010 Regional Entity Budget C — Non-Statutory

Statement of Activities 2009 Budget & Projection, and 2010 Budget						
NON-STATUTORY						
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	Percent Variance	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
<b>Funding</b>						
<b>ERO Funding</b>						
ERO Assessments	\$ -	\$ -	\$ -		\$ -	\$ -
Penalty Sanctions <sup>(1)</sup>	-	-	-		-	-
<b>Total ERO Funding</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		<b>\$ -</b>	<b>\$ -</b>
Membership Dues	-	-	-		-	-
Testing Fees	-	-	-		-	-
Services & Software	871,997	788,005	(83,993)	-9.6%	1,153,772	281,775
Workshops	-	-	-		-	-
Interest	-	-	-		-	-
Miscellaneous	-	-	-		-	-
<b>Total Funding</b>	<b>\$ 871,997</b>	<b>\$ 788,005</b>	<b>\$ (83,993)</b>	<b>-9.6%</b>	<b>\$ 1,153,772</b>	<b>\$ 281,775</b>
<b>Expenses</b>						
<b>Personnel Expenses</b>						
Salaries	\$ 448,080	\$ 430,398	\$ (17,682)	-3.9%	\$ 608,104	\$ 160,025
Payroll Taxes	35,846	33,612	(2,234)	-6.2%	48,059	12,212
Benefits	45,942	37,197	(8,745)	-19.0%	66,079	20,137
Retirement Costs	64,972	59,284	(5,687)	-8.8%	86,102	21,131
<b>Total Personnel Expenses</b>	<b>\$ 594,840</b>	<b>\$ 560,492</b>	<b>\$ (34,348)</b>	<b>-5.8%</b>	<b>\$ 808,345</b>	<b>\$ 213,505</b>
<b>Meeting Expenses</b>						
Meetings	\$ -	\$ -	\$ -		\$ 5,600	\$ 5,600
Travel	2,181	4,500	2,319	106.3%	624	(1,557)
Conference Calls	-	-	-		-	-
<b>Total Meeting Expenses</b>	<b>\$ 2,181</b>	<b>\$ 4,500</b>	<b>\$ 2,319</b>	<b>106.3%</b>	<b>\$ 6,224</b>	<b>\$ 4,043</b>
<b>Operating Expenses</b>						
Consultants & Contracts	\$ 36,396	\$ 97,700	\$ 61,303	168.4%	\$ 120,064	\$ 83,667
Office Rent	118,200	52,972	(65,228)	-55.2%	62,400	(55,800)
Office Costs	480	594	114	23.8%	-	(480)
Professional Services	89,900	71,487	(18,403)	-20.5%	57,875	(32,025)
Miscellaneous	-	250	250	100.0%	1,865	1,865
Depreciation	-	29,706	29,706	100.0%	30,000	30,000
<b>Total Operating Expenses</b>	<b>\$ 244,976</b>	<b>\$ 252,720</b>	<b>\$ 7,743</b>	<b>3.2%</b>	<b>\$ 272,203</b>	<b>\$ 27,227</b>
<b>Total Direct Expenses</b>	<b>\$ 841,997</b>	<b>\$ 817,711</b>	<b>\$ (24,286)</b>	<b>-2.9%</b>	<b>\$ 1,086,772</b>	<b>\$ 244,775</b>
<b>Indirect Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		<b>\$ -</b>	<b>\$ -</b>
<b>Other Non-Operating Expenses</b>	<b>\$ 30,000</b>	<b>\$ -</b>	<b>\$ (30,000)</b>	<b>-100.0%</b>	<b>\$ -</b>	<b>\$ (30,000)</b>
<b>Total Expenses</b>	<b>\$ 871,997</b>	<b>\$ 817,711</b>	<b>\$ (54,286)</b>	<b>-6.2%</b>	<b>\$ 1,086,772</b>	<b>\$ 214,775</b>
<b>Change in Assets</b>	<b>\$ -</b>	<b>\$ (29,706)</b>	<b>\$ (29,706)</b>	<b>100.0%</b>	<b>\$ 67,000</b>	<b>\$ 67,000</b>
<b>Fixed Assets</b>						
Depreciation	\$ -	\$ (29,706)	\$ (29,706)	0.0%	\$ (30,000)	\$ (30,000)
Computer & Software CapEx	-	-	-		67,000	67,000
Furniture & Fixtures CapEx	-	-	-		-	-
Equipment CapEx	-	-	-		-	-
Leasehold Improvements	-	-	-		-	-
<b>Change in Fixed Assets</b>	<b>\$ -</b>	<b>\$ 29,706</b>	<b>\$ 29,706</b>	<b>100.0%</b>	<b>\$ (37,000)</b>	<b>\$ (37,000)</b>
Allocation of Fixed Assets	\$ -	\$ -	\$ -		\$ -	\$ -
<b>Change in Fixed Assets</b>	<b>\$ -</b>	<b>\$ 29,706</b>	<b>\$ 29,706</b>	<b>100.0%</b>	<b>\$ (37,000)</b>	<b>\$ (37,000)</b>
<b>TOTAL CHANGE IN ASSETS</b>	<b>\$ -</b>	<b>\$ (0)</b>	<b>\$ (0)</b>	<b>0.0%</b>	<b>\$ 30,000</b>	<b>\$ 30,000</b>

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Section B — 2010 Regional Entity BudgetC — Non-Statutory

Statement of Activities						
2010 Approved Budget & 2010 Amended Budget						
NON-STATUTORY + STRUCTURAL SEPARATION BUDGET						
	[1]	[2]	[3]	[4]	[2]+[3]+[4]=[5]	[1]+[5]=[6]
	2010	2010	2010	2010	2010	2010
	Approved	Budget	Budget	Base Budget	Adjustment	Base + Adjustment
	Budget	Start-Up	Recurring	Reductions	to the Approved	to the
		Costs	Costs		Budget	Approved Budget
<b>Funding</b>						
<b>ERO Funding</b>						
ERO Assessments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Penalty Sanctions <sup>(1)</sup>	-	-	-	-	-	-
<b>Total ERO Funding</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Membership Dues	-	-	-	-	-	-
Testing Fees	-	-	-	-	-	-
Services & Software	1,153,772	-	195,064	(164,956)	30,108	1,183,879
Workshops	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-
<b>Total Funding</b>	<b>\$ 1,153,772</b>	<b>\$ -</b>	<b>\$ 195,064</b>	<b>\$ (164,956)</b>	<b>\$ 30,108</b>	<b>\$ 1,183,879</b>
<b>Expenses</b>						
<b>Personnel Expenses</b>						
Salaries	\$ 608,104	\$ -	\$ 48,510	\$ -	\$ 48,510	\$ 656,614
Payroll Taxes	48,059	-	5,123	-	5,123	53,181
Benefits	66,079	-	7,044	-	7,044	73,123
Retirement Costs	86,102	-	9,178	-	9,178	95,280
<b>Total Personnel Expenses</b>	<b>\$ 808,345</b>	<b>\$ -</b>	<b>\$ 69,854</b>	<b>\$ -</b>	<b>\$ 69,854</b>	<b>\$ 878,199</b>
<b>Meeting Expenses</b>						
Meetings	\$ 5,600	\$ -	\$ -	\$ -	\$ -	\$ 5,600
Travel	624	-	-	-	-	624
Conference Calls	-	-	-	-	-	-
<b>Total Meeting Expenses</b>	<b>\$ 6,224</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 6,224</b>
<b>Operating Expenses</b>						
Consultants & Contracts	\$ 120,064	\$ -	\$ 21,677	\$ (99,273)	\$ (77,596)	\$ 42,467
Office Rent	62,400	-	40,540	(37,575)	2,965	65,365
Office Costs	-	-	810	-	810	810
Professional Services	57,875	-	27,809	-	27,809	85,684
Miscellaneous	1,865	-	1,519	-	1,519	3,383
Depreciation	30,000	-	-	-	-	30,000
<b>Total Operating Expenses</b>	<b>\$ 272,203</b>	<b>\$ -</b>	<b>\$ 92,354</b>	<b>\$ (136,848)</b>	<b>\$ (44,494)</b>	<b>\$ 227,709</b>
<b>Total Direct Expenses</b>	<b>\$ 1,086,772</b>	<b>\$ -</b>	<b>\$ 162,208</b>	<b>\$ (136,848)</b>	<b>\$ 25,360</b>	<b>\$ 1,112,132</b>
<b>Indirect Expenses</b>	<b>\$ -</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>\$ -</b>
<b>Total Expenses</b>	<b>\$ 1,086,772</b>	<b>\$ -</b>	<b>\$ 162,208</b>	<b>\$ (136,848)</b>	<b>\$ 25,360</b>	<b>\$ 1,112,132</b>
<b>Change in Assets</b>	<b>\$ 67,000</b>	<b>\$ -</b>	<b>\$ 32,856</b>	<b>\$ (28,109)</b>	<b>\$ 4,748</b>	<b>\$ 71,748</b>
<b>Fixed Assets</b>						
Depreciation	\$ (30,000)	\$ -	\$ -	\$ -	\$ -	\$ (30,000)
Computer & Software CapEx	67,000	-	-	-	-	67,000
Furniture & Fixtures CapEx	-	-	-	-	-	-
Equipment CapEx	-	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-	-
<b>Change in Fixed Assets</b>	<b>\$ (37,000)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (37,000)</b>
Allocation of Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Change in Fixed Assets</b>	<b>\$ (37,000)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (37,000)</b>
<b>TOTAL CHANGE IN ASSETS</b>	<b>\$ 30,000</b>	<b>\$ -</b>	<b>\$ 32,856</b>	<b>\$ (28,109)</b>	<b>\$ 4,748</b>	<b>\$ 34,748</b>

<sup>(1)</sup> Reflects penalty sanctions collected prior to June 30, 2009.

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Section C — Non-Statutory

**Personnel Analysis**

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

**Table 2**

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

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

Total FTE's by Program Area	Approved 2010	Direct FTEs 2010 Budget	Shared FTEs <sup>1</sup> 2010 Budget	Total FTEs 2010 Budget	Change From Approved 2010 Budget
<b>NON-STATUTORY</b>					
<b>Operational Programs</b>					
Protocol	5.04	0.00	5.04	5.04	0.00
<b>Total FTEs Operational Programs</b>	<b>5.04</b>	<b>0.00</b>	<b>5.04</b>	<b>5.04</b>	<b>0.00</b>
<b>Administrative Programs</b>					
General & Administrative	0.96	0.00	1.46	1.46	0.50
<b>Total FTEs Administrative Programs</b>	<b>0.96</b>	<b>0.00</b>	<b>1.46</b>	<b>1.46</b>	<b>0.50</b>
<b>Total FTEs</b>	<b>6.00</b>	<b>0.00</b>	<b>6.50</b>	<b>6.50</b>	<b>0.50</b>

<sup>1</sup>A shared FTE is defined as only Texas Regional Entity employees who performs both Statutory and Non-statutory activities; however not for a registered function (e.g. Reliability Coordinator).

2010 Texas ~~Regional~~Reliability Entity Business Plan and Budget

Approved by Board of Directors: ~~August 17, 2009~~

January 18, 2010

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Section C — Non-Statutory

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2010 Texas ~~Regional~~Reliability Entity Business Plan and Budget  
Approved by Board of Directors: ~~August 17, 2009~~  
~~January 18, 2010~~

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## Section D

### 2010 Consolidated Statement of Activities by Program, Statutory and Non-statutory

#### Statement of Financial Position

As of December 31, 2008, unaudited

As of December 31, 2009, projected

As of December 31, 2010, as budgeted

Section D — Other Exhibits

Statement of Financial Position			
2008 Audited, 2009 Projection, and 2010 Budget			
STATUTORY and NON-STATUTORY			
	In-Balance	In-Balance	Out-Of-Balance
	Unaudited 31-Dec-08	Projected 31-Dec-09	Budget 31-Dec-10
<b>ASSETS</b>			
Cash	3,959,463	1,714,097	1,665,832
Trade Accounts receivable, net of allowance for uncollectible accounts of \$137,600	-	-	-
Other Receivables	270,609	-	-
Prepaid expenses and other current assets	-	-	-
Security deposit	-	-	-
Cash value of insurance policies	-	-	-
Property and equipment	297,195	545,150	750,758
Total Assets	<b>4,527,267</b>	<b>2,259,247</b>	<b>2,416,591</b>
<b>LIABILITIES AND NET ASSETS</b>			
<b>Liabilities</b>			
Accounts payable and accrued expenses	265,115	265,115	265,115
Regulatory Liability	3,095,041	593,983	-
Other Liabilities	869,916	-	-
Deferred compensation	-	-	-
Accrued retirement liabilities	-	-	-
Total Liabilities	<b>4,230,072</b>	<b>859,097</b>	<b>265,115</b>
Net Assets - unrestricted	297,195	1,400,150	2,151,476
Total Liabilities and Net Assets	<b>4,527,267</b>	<b>2,259,247</b>	<b>2,416,591</b>

2010 Texas ~~Regional~~Reliability Entity Business Plan and Budget  
 Approved by Board of Directors: August 17, 2009  
 January 18, 2010

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Section D — Other Exhibits

Statement of Financial Position			
2008 Audited, 2009 Projection, and 2010 Budget			
STATUTORY and NON-STATUTORY			
	In-Balance	In-Balance	In-Balance
	Unaudited 31-Dec-08	Projected 31-Dec-09	Budget 31-Dec-10
<b>ASSETS</b>			
Cash	3,959,463	1,714,097	1,929,309
Trade Accounts receivable, net of allowance for uncollectible accounts of \$137,600	-	-	-
Other Receivables	270,609	-	-
Prepaid expenses and other current assets	-	-	-
Security deposit	-	-	-
Cash value of insurance policies	-	-	-
Property and equipment	297,195	545,150	1,696,208
Total Assets	4,527,267	2,259,247	3,625,518
<b>LIABILITIES AND NET ASSETS</b>			
<b>Liabilities</b>			
Accounts payable and accrued expenses	265,115	265,115	265,115
Regulatory Liability	3,095,041	593,983	-
Other Liabilities	869,916	-	-
Deferred compensation	-	-	-
Accrued retirement liabilities	-	-	-
Total Liabilities	4,230,072	859,097	265,115
Net Assets - unrestricted	297,195	1,400,150	3,360,403
Total Liabilities and Net Assets	4,527,267	2,259,247	3,625,518

2010 Texas ~~Regional~~Reliability Entity Business Plan and Budget  
 Approved by Board of Directors: August 17, 2009  
 January 18, 2010

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**Section C — Non-Statutory**

**Texas Regional Entity 2010 Budget**

Statement of Activities 2010 Budget	Total	Statutory Total	Non-Statutory Total	Functions in Delegation Agreement											Non-Statutory Total			
				Statutory Total	Reliability Standards (Section 300)	Compliance and Organization Registration and Certification (Section 400 & 500)	Reliability Assessment and Performance Analysis (Section 800)	Training and Education (Section 900)	Situational Awareness and Infrastructure Security (Section 1000)	Committee and Member Forums	General and Administrative	Legal and Regulatory	Information Technology	Human Resources		Accounting and Finance		
<b>Funding</b>																		
<b>ERO Funding</b>																		
ERO Assessments	9,144,340	9,144,340	-	9,144,340	561,400	6,746,229	630,416	284,526	813,822	-	(6,343)	18,486	37,151	25,001	33,652	-	-	-
Penalty Sanctions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total ERO Funding</b>	<b>9,144,340</b>	<b>9,144,340</b>	<b>-</b>	<b>9,144,340</b>	<b>561,400</b>	<b>6,746,229</b>	<b>630,416</b>	<b>284,526</b>	<b>813,822</b>	<b>-</b>	<b>(6,343)</b>	<b>18,486</b>	<b>37,151</b>	<b>25,001</b>	<b>33,652</b>	<b>-</b>	<b>-</b>	<b>-</b>
Membership Dues	27,000	27,000	-	27,000	-	-	-	-	-	-	27,000	-	-	-	-	-	-	-
Testing Fees	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Services & Software	1,183,879	-	1,183,879	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,183,879
Workshops	180,000	180,000	-	180,000	-	-	-	180,000	-	-	-	-	-	-	-	-	-	-
Interest	2,000	2,000	-	2,000	-	-	-	-	-	-	2,000	-	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Funding</b>	<b>10,537,219</b>	<b>9,353,340</b>	<b>1,183,879</b>	<b>9,353,340</b>	<b>561,400</b>	<b>6,746,229</b>	<b>630,416</b>	<b>464,526</b>	<b>813,822</b>	<b>-</b>	<b>22,657</b>	<b>18,486</b>	<b>37,151</b>	<b>25,001</b>	<b>33,652</b>	<b>-</b>	<b>-</b>	<b>1,183,879</b>
<b>Expenses</b>																		
<b>Personnel Expenses</b>																		
Salaries	4,498,395	3,841,781	656,614	3,841,781	184,729	2,037,418	217,004	81,122	291,164	-	1,030,345	-	-	-	-	-	-	656,614
Payroll Taxes	356,162	302,961	53,191	302,961	14,901	161,372	17,167	6,425	23,060	-	80,036	-	-	-	-	-	-	53,191
Benefits	481,896	408,773	73,123	408,773	20,489	221,590	23,632	8,334	31,708	-	102,530	-	-	-	-	-	-	73,123
Retirement Costs	645,043	550,669	95,280	550,669	26,697	289,434	30,793	11,511	41,316	-	150,918	-	-	-	-	-	-	95,280
<b>Total Personnel Expenses</b>	<b>5,982,402</b>	<b>5,104,203</b>	<b>878,199</b>	<b>5,104,203</b>	<b>246,816</b>	<b>2,709,803</b>	<b>288,615</b>	<b>107,893</b>	<b>387,247</b>	<b>-</b>	<b>1,363,829</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>878,199</b>
<b>Meeting Expenses</b>																		
Meetings	233,600	228,000	5,600	228,000	400	4,000	-	220,000	-	-	3,600	-	-	-	-	-	-	5,600
Travel	195,016	194,392	624	194,392	6,824	154,664	806	-	4,260	-	17,158	4,478	4,057	-	2,145	-	-	624
Conference Calls	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Meeting Expenses</b>	<b>428,616</b>	<b>422,392</b>	<b>6,224</b>	<b>422,392</b>	<b>7,224</b>	<b>158,664</b>	<b>806</b>	<b>220,000</b>	<b>4,260</b>	<b>-</b>	<b>20,758</b>	<b>4,478</b>	<b>4,057</b>	<b>-</b>	<b>2,145</b>	<b>-</b>	<b>-</b>	<b>6,224</b>
<b>Operating Expenses</b>																		
Consultants & Contracts	686,950	604,483	82,467	604,483	-	-	-	-	-	-	604,483	-	-	-	-	-	-	82,467
Office Rent	424,500	363,900	60,600	363,900	-	-	-	-	-	-	363,900	-	-	-	-	-	-	60,600
Office Costs	49,422	48,612	810	48,612	480	12,062	-	-	-	-	28,830	5,400	960	-	880	-	-	810
Professional Services	1,259,930	1,214,246	45,684	1,214,246	18,824	428,660	-	-	-	-	75,300	138,000	214,733	121,720	217,010	-	-	45,684
Miscellaneous	52,991	44,843	8,148	44,843	615	15,561	673	842	400	-	1,350	6,200	6,500	-	12,701	-	-	8,148
Depreciation	329,657	299,657	30,000	299,657	-	141,107	-	-	-	-	146,550	-	12,000	-	30,000	-	-	30,000
<b>Total Operating Expenses</b>	<b>2,803,448</b>	<b>2,575,740</b>	<b>227,709</b>	<b>2,575,740</b>	<b>19,919</b>	<b>597,389</b>	<b>673</b>	<b>842</b>	<b>400</b>	<b>-</b>	<b>1,220,413</b>	<b>149,600</b>	<b>234,193</b>	<b>121,720</b>	<b>230,591</b>	<b>-</b>	<b>-</b>	<b>227,709</b>
<b>Total Direct Expenses</b>	<b>9,214,467</b>	<b>8,102,335</b>	<b>1,112,132</b>	<b>8,102,335</b>	<b>273,959</b>	<b>3,465,857</b>	<b>290,095</b>	<b>328,735</b>	<b>391,907</b>	<b>-</b>	<b>2,605,000</b>	<b>154,078</b>	<b>238,250</b>	<b>121,720</b>	<b>232,736</b>	<b>-</b>	<b>-</b>	<b>1,112,132</b>
Indirect Expenses	-	-	-	-	228,439	2,409,652	270,464	107,918	335,309	-	(2,605,000)	(154,078)	(238,250)	(121,720)	(232,736)	-	-	-
Other Non-Operating Expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Expenses</b>	<b>9,214,467</b>	<b>8,102,335</b>	<b>1,112,132</b>	<b>8,102,335</b>	<b>502,398</b>	<b>5,875,509</b>	<b>560,559</b>	<b>436,653</b>	<b>727,217</b>	<b>-</b>	<b>(0)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,112,132</b>
<b>Change in Assets</b>	<b>1,322,752</b>	<b>1,251,005</b>	<b>71,748</b>	<b>1,251,005</b>	<b>59,002</b>	<b>870,720</b>	<b>69,857</b>	<b>27,874</b>	<b>86,605</b>	<b>-</b>	<b>22,657</b>	<b>18,486</b>	<b>37,151</b>	<b>25,001</b>	<b>33,652</b>	<b>-</b>	<b>-</b>	<b>71,748</b>
<b>Fixed Assets</b>																		
Depreciation	(329,657)	(299,657)	(30,000)	(299,657)	-	(141,107)	-	-	-	-	(146,550)	-	(12,000)	-	-	-	-	(30,000)
Computer & Software CapEx	1,148,500	1,081,500	67,000	1,081,500	-	374,237	-	-	-	-	-	-	666,263	-	41,000	-	-	67,000
Furniture & Fixtures CapEx	332,215	332,215	-	332,215	-	15,215	-	-	0	-	317,000	-	-	-	-	-	-	-
Equipment CapEx	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>(Increase) / Decrease in Fixed Assets</b>	<b>(1,151,058)</b>	<b>(1,114,058)</b>	<b>(37,000)</b>	<b>(1,114,058)</b>	<b>-</b>	<b>(248,345)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(170,450)</b>	<b>-</b>	<b>(654,263)</b>	<b>-</b>	<b>(41,000)</b>	<b>-</b>	<b>-</b>	<b>(37,000)</b>
Allocation of Fixed Assets	-	-	-	-	(59,002)	(622,375)	(69,857)	(27,874)	(86,605)	-	170,450	-	654,263	-	41,000	-	-	-
<b>Change in Fixed Assets</b>	<b>(1,151,058)</b>	<b>(1,114,058)</b>	<b>(37,000)</b>	<b>(1,114,058)</b>	<b>(59,002)</b>	<b>(870,720)</b>	<b>(69,857)</b>	<b>(27,874)</b>	<b>(86,605)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(37,000)</b>
<b>TOTAL CHANGE IN ASSETS</b>	<b>171,694</b>	<b>136,947</b>	<b>34,748</b>	<b>136,947</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>22,657</b>	<b>18,486</b>	<b>37,151</b>	<b>25,001</b>	<b>33,652</b>	<b>-</b>	<b>-</b>	<b>34,748</b>
FTE's	46.00	39.50	6.50	39.50	2.06	21.74	2.44	0.97	3.03	-	1.05	3.17	2.49	0.85	1.70	-	-	6.50

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Section C — Non-Statutory

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**ATTACHMENT 6**

**FORM OF ASSIGNMENT AND ASSUMPTION AGREEMENT**

**BETWEEN**

**ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.**

**AND**

**TEXAS RELIABILITY ENTITY, INC.**

## ASSIGNMENT AND ASSUMPTION AGREEMENT

THIS ASSIGNMENT AND ASSUMPTION AGREEMENT (this “**Agreement**”) is entered into as of \_\_\_\_\_, 2010 (the “**Closing Date**”) by and between Electric Reliability Council of Texas, Inc., a Texas non-profit corporation (“**Transferor**”) and Texas Reliability Entity, Inc., a Texas non-profit corporation (“**Transferee**”).

### RECITALS

A. Transferor, a Texas non-profit corporation described in Section 501(c)(4) of the Internal Revenue Code of 1986, as amended (“**IRC**”), is the independent system operator for most of the State of Texas that is charged with nondiscriminatory coordination of market transactions, system-wide transmission planning, and network reliability;

B. Transferor has a functionally independent division, Texas Regional Entity (“**TRE**”), which was formed in 2007 to become a regional entity under Part II of the Federal Power Act (16 U.S.C. 824 et seq.) through a delegation agreement with North American Electric Reliability Corporation (NERC) which was approved by the Federal Energy Regulatory Commission (FERC), pursuant to Section 215 of the Federal Power Act and to perform certain reliability compliance monitoring and reporting duties for the Public Utility Commission of Texas (PUCT);

C. Transferee will take over the activities and responsibilities currently performed by TRE, and in that regard, has applied to the Internal Revenue Service for treatment as a tax-exempt organization described in Section 501(c)(3) of the IRC;

D. The Board of Directors of Transferor has determined it to be in the best interest of the Transferor to assign all of its assets and liabilities related to TRE to Transferee; and

E. The Board of Directors of Transferee has determined it to be in the best interest of the Transferee to assume all of the assets and liabilities of Transferor which relate to TRE.

THEREFORE, for and in consideration of the premises and the mutual representations and agreements contained herein, Transferor and Transferee hereby agree as follows:

### AGREEMENT

#### **Section 1. TRANSFER OF ASSETS**

Subject to the terms and conditions of this Agreement, as of the Closing Date, Transferor shall convey, transfer, assign, and deliver to Transferee, and Transferee shall acquire and accept from Transferor, without reservation, Transferor’s tangible and intangible assets owned, licensed, or otherwise used primarily or exclusively to conduct the business of TRE including, without limitation, the following (together, the “**Transferred Assets**”), as more specifically described on Exhibit A hereto (the “**Transfer**”), and shall transfer to TRE, without charge, any of the Transferred Assets, tangible or intangible, that were acquired with statutory or non-statutory funds of Texas Regional Entity:

(a) any and all equipment, machinery, tools, appliances, vehicles, furniture, fixtures, parts, tangible real or personal property, inventory or supplies and all warranties and

guarantees, if any, express or implied, which relate primarily or exclusively to the business of TRE, to the extent assignable;

(b) contracts to which the Transferor is a party at the Closing Date which relate primarily or exclusively to the business of TRE, including grant agreements or contracts, leases, licenses, bank and investment contracts, insurance contracts, and contracts for services (together, the “**Contracts**”);

(c) any and all cash on hand and checks received pending collection as of the Closing Date and all cash equivalents including, without limitation, all bank deposits, investment account deposits, brokerage account deposits, commercial paper, certificates of deposits, and securities, whether or not marketable, which relate primarily or exclusively to the business of TRE;

(d) all of the Transferor’s right, title and interest to receive the payment of money or other consideration in respect of the business of TRE, including, without limitation: (i) all accounts receivable; (ii) all rights to receive payments arising under contracts; (iii) chattel paper; (iv) all general intangibles evidencing a right to receive payment; (v) all documents of title, receipts, draft checks, acceptances and any and all notes or other negotiable and nonnegotiable instruments, documents, bills of exchange, securities, deposits, certificates of deposit, or other writings evidencing or comprising a monetary obligation;

(e) all intangible assets, rights, and claims of the Transferor of every kind and nature used, owned, or held by the Transferor in respect of the business of TRE, including without limitation, all proprietary materials, trademarks, service marks, copyrights, patent rights, trade names and all applications for or registrations of any of the foregoing, marketing or proprietary designs, brochures, advertisements, concepts, literature, business information, rights against other persons in respect of any of the foregoing, rights to enforce confidentiality obligations, and any other proprietary properties of the Transferor, including without limitation, the Transferor’s interest in the website at [www.texasre.org](http://www.texasre.org) ;

(f) an original or a copy of the following, whether maintained in paper, electronic, digital or other medium: all books, files, records, lists, documents and proprietary information of the Transferor that relate to the business of TRE, provided that the Transferor may keep a copy of any information that Transferor is required by law to keep in its possession;

(g) without limiting the generality of item (f), all books, files, records, lists, documents and other information, whether maintained in paper, electronic, digital or other medium, relating to compliance monitoring and enforcement matters and activities conducted by Transferor, whether completed or in progress, with respect to any registered entity or other owner, operator or user of the bulk-power system, including all books, files, records, lists, documents and other information provided or submitted to Transferor by a registered entity or other owner, operator or user of the bulk power system in connection with any compliance monitoring and enforcement matters or activities.

(h) prepaid expenses, prepaid deposits, prepaid insurance premiums and expenses, credits, retainers, and security deposits of Transferor in respect of the business of TRE;

(i) the rights, subject to the obligations accruing for periods from and after the Closing Date, under all leases of the Transferor for real and personal property relating to the business of TRE;

(j) the management information system components and related software and all other software owned or used by the Transferor exclusively for the business of TRE; and

(k) all rights under any nondisclosure or confidentiality agreements, together with any warranties made by any employees or former employees and any assignments of intellectual property rights as included in such agreements in respect of the business of TRE.

## **Section 2. ASSUMED LIABILITIES**

In connection with the transfer, delivery, and assignment of the Transferred Assets, upon execution and delivery of this Agreement, Transferee agrees to assume and become responsible for Transferor's future obligations under the Contracts to (i) furnish goods, services, and other non-cash benefits to a third party after the Closing Date, (ii) pay for goods, services, and other non-cash benefits that a third party will furnish to Transferee after the Closing Date, or (iii) reimburse any overpayments for goods, services, or other non-cash benefits to a third party pursuant to an existing Contract (the "**Assumed Liabilities**" and each an "**Assumed Liability**"), as more specifically described on Exhibit B hereto. Transferred Assets which are not subject to Assumed Liabilities are transferred to Transferee free and clear of any liens, claims or encumbrances.

## **Section 3. USE OF ASSETS**

Transferee agrees to use the Transferred Assets to further the purposes and business which was being conducted by TRE prior to the Closing Date, and which will be continued by Transferee from and after the Closing Date.

## **Section 4. GOVERNMENTAL APPROVALS AND CONSENTS.**

(a) To the extent that the Transfer requires any Governmental Approvals or Consents (as defined below), the parties shall use their commercially reasonable efforts to obtain any such Governmental Approvals and Consents.

(b) If and to the extent that the valid, complete and perfected transfer or assignment to Transferee of any Transferred Assets would be a violation of applicable laws or require any Consent or Governmental Approval in connection with this transaction, then, unless Transferee and Transferor shall otherwise mutually determine, the transfer or assignment to Transferee of such Transferred Assets shall be automatically deemed deferred and any such purported transfer or assignment shall be null and void until such time as all legal impediments are removed and/or such Consents or Governmental Approvals have been obtained and the failure to so transfer or assign any such Transferred Asset shall not be a breach of Transferor's or Transferee's respective obligations hereunder. Notwithstanding the foregoing, such Asset shall be deemed a Transferred Asset for purposes of determining whether any liability is an Assumed Liability.

(c) If the transfer or assignment of any Transferred Asset intended to be transferred or assigned hereunder is not consummated on the Closing Date, whether as a result of the provisions of Section 4(b) or for any other reason, then, to the extent permitted by applicable law, Transferor shall thereafter hold such Transferred Asset for the use and benefit insofar as reasonably possible, of Transferee (at the expense of Transferee). In addition, Transferor shall take such other actions as may be reasonably requested by Transferee, insofar as reasonably possible, in order to put Transferee in the same position as it would have been if the relevant Transferred Asset had been transferred as contemplated hereby and so that all the benefits and burdens relating to such Transferred Asset, including possession, use, risk of loss, potential for gain and dominion, control and command over such Assets, are to inure from and after the Closing Date to Transferee. Notwithstanding the foregoing, if following a request from Transferor, Transferee fails to discharge any due and outstanding liability related to a Transferred Asset being held by Transferor, or otherwise fails to reasonably assure Transferor that such liability will be promptly discharged, then Transferor, in addition to any other rights and remedies it may have hereunder, shall no longer be required to hold such Transferred Asset for

the benefit of Transferee and, subject to Section 4(d) below, may retain such Transferred Asset for its own use and benefit.

(d) If and when the Consents and/or Governmental Approvals, the absence of which caused the deferral of transfer of any Transferred Asset pursuant to Section 4(b) are obtained, the transfer of the applicable Transferred Asset shall be effected in accordance with the terms of this Agreement.

(e) Transferor shall not be obligated, in connection with the foregoing, to expend any money unless the necessary funds are advanced by Transferee, other than non-material out-of-pocket administrative expenses, attorneys' fees and recording or similar fees reasonably necessary to protect the value of a Transferred Asset and where, due to time sensitivity, it is not practicable to first seek advancement of such funds from Transferee, and any such amounts shall be promptly reimbursed to Transferor by Transferee.

## **Section 5. NOVATION OF CONTRIBUTED LIABILITIES.**

(a) Each of Transferee and Transferor, at the request of the other, shall use its commercially reasonable efforts to obtain, or to cause to be obtained, any consent, substitution, approval or amendment required to novate or assign to Transferee all obligations under agreements, leases, licenses and other obligations or Liabilities of any nature whatsoever that constitute Contributed Liabilities, or to obtain in writing the unconditional release of all parties to such arrangements other than Transferee, so that, in any such case, Transferee shall be solely responsible for such Contributed Liabilities; provided, however, that neither Transferee nor Transferor shall be obligated to pay any consideration therefor to any third party from whom such consents, approvals, substitutions and amendments are requested; and provided, further, that any legal fees or other administrative costs associated with obtaining such consents, approvals, substitution and amendments shall be borne by Transferor.

(b) If Transferee or Transferor is unable to obtain, or to cause to be obtained, any such required consent, approval, release, substitution or amendment, Transferor shall continue to be bound by such agreements, leases, licenses and other obligations that constitute Contributed Liabilities and, unless not permitted by law or the terms thereof, Transferor shall, as agent or subcontractor for Transferee, as the case may be, pay, perform and discharge fully all such obligations or other Liabilities that constitute Contributed Liabilities hereunder from and after the Closing Date and Transferee shall, without further consideration, pay or remit, or cause to be paid or remitted, to Transferor promptly, all money, rights and other consideration paid or remitted by Transferor in respect of such Contributed Liabilities. If and when any such consent, approval, release, substitution or amendment shall be obtained or such agreement, lease, license or other rights or obligations shall otherwise become assignable or able to be novated, Transferor shall thereafter assign, or cause to be assigned, all its rights, obligations and other Liabilities thereunder to Transferee without payment of further consideration and Transferee shall, without the payment of any further consideration, assume such rights and obligations.

## **Section 6. EMPLOYEE BENEFIT ARRANGEMENTS.**

(a) Effective as of the Closing Date, or other later date that Transferor and Transferee shall mutually agree upon, Transferee shall adopt, and shall maintain employee benefit plans for the benefit of the Transferee Employees (as defined below) that, to the extent administratively and financially practicable, are substantially the same as the corresponding plans of Transferor that were in effect immediately prior to the Closing Date with respect to these Transferee Employees.

(b) Except as otherwise provided herein, nothing in this Agreement shall preclude Transferor, at any time after the Closing Date, from amending, merging, modifying, terminating, eliminating, reducing or otherwise altering in any respect any employee benefit plan or any employment or other service arrangement with any Transferor Employee or any vendor (to the extent permitted by law).

(c) Transferor shall be solely responsible for providing COBRA continuation coverage under Section 4980B of the Code (for the applicable period of time as required by law) to those Transferee Employees, and any of their respective eligible dependents, who become eligible for such coverage prior to the Closing Date.

(d) Transferee and Transferor agree that none of the Transferee Employees shall be deemed, by reason of the transfer of their employment from Transferor to Transferee, to have experienced a termination or severance of employment from Transferor for purposes of any employee benefit plan maintained or sponsored by Transferor that provides for the payment of severance, salary continuation or similar benefits.

(e) Effective as of the Closing Date, Transferee shall make all contributions to and shall assume all Liabilities under any multiemployer plan (as defined in Section 3(37) of the Employee Retirement Income Security Act of 1974, as amended) in respect of any Transferee Employee, except to the extent paid prior to the Closing Date.

Nothing in this Section 6, whether express or implied, is intended to or shall confer any rights, benefits or remedies under or by reason of this Section 6 on any Persons (including without limitation any Transferee Employee (or former employee of Transferor)) other than the parties to this Agreement and their respective successors and permitted assigns, nor is anything in this Agreement intended to relieve or discharge the obligation or liability of any third party to any party to this Agreement, nor shall any provisions give any third party any right of subrogation over or action against any party to this Agreement.

## **Section 7. DISCLAIMER OF REPRESENTATIONS AND WARRANTIES**

Each of Transferor and Transferee understands and agrees that, except as expressly set forth herein, no party to this Agreement, or any other agreement or document contemplated by this Agreement, is representing or warranting in any way, express or implied, as to the Transferred Assets, businesses or Assumed Liabilities transferred or assumed as contemplated hereby or thereby, as to any consents required in connection therewith, or any other matter concerning, any Transferred Assets, or as to the absence of any defenses or right of setoff or freedom from counterclaim with respect to any claim or other Transferred Asset, of any party, or as to the legal sufficiency of any assignment, document or instrument delivered hereunder to convey title to any Asset or thing of value upon the execution, delivery and filing hereof or thereof. Except as may expressly be set forth herein, all such Transferred Assets are being transferred on an "as is", "where is" basis. Subject to the obligations set forth in Section 4(a) hereof, as of the Closing Date, Transferor is not responsible for obtaining for or on behalf of the Transferee any necessary Consents or Governmental Approvals or ensuring that any requirements of laws or judgments applicable to Transferee are complied with.

## **Section 8. MISCELLANEOUS**

This Agreement may be executed in multiple counterparts, each of which shall be deemed an original, and all of which together shall constitute one and the same document.

Each party hereto agrees that, as requested by the other party after the Closing Date, it will do all such further acts as may be required to effectuate the transactions contemplated herein. This Agreement shall be governed by and construed under the laws of the state of Texas, without regard to conflict of laws principles. "Consents" means any consents, waivers or approvals from, or notification requirements to, any third parties. "Governmental Approvals" means any notices, reports or other filings to be made, or any consents, registrations, approvals, permits or authorizations to be obtained from, any Governmental Authority. "Governmental Authority" means any federal, state, local, foreign or international court, government, department, commission, board, bureau, agency, official or other regulatory, administrative or governmental authority. "Transferee Employees" means employees of Transferor who terminate employment with Transferor as of the Closing Date and immediately begin employment with Transferee.

*(Signature page follows.)*



**ASSIGNMENT AND ASSUMPTION AGREEMENT -- SIGNATURE PAGE**

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

**TRANSFEROR:**

ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.,  
a Texas non-profit corporation

By: \_\_\_\_\_  
(Signature)

\_\_\_\_\_  
(Print Name)

\_\_\_\_\_  
(Print Title)

**TRANSFeree:**

TEXAS RELIABILITY ENTITY, INC.,  
a Texas non-profit corporation

By: \_\_\_\_\_  
(Signature)

Larry D. Grimm  
President and Chief Executive Officer

**EXHIBIT A**  
**Transferred Assets**

[List of FF&E, bank accounts, website/domain names, software, etc. attached.]

**EXHIBIT B**  
**Assumed Liabilities**

[List of office and equipment leases, vendor payables and assumed contracts, etc.  
attached.]

**ATTACHMENT 7**

**RESOLUTIONS OF THE BOARD OF DIRECTORS**

**OF TEXAS RELIABILITY ENTITY, INC.**

**APPROVING AMENDED AND RESTATED DELEGATION AGREEMENT**

**BETWEEN NERC AND TEXAS RELIABILITY ENTITY, INC.**

**AND THE TEXAS RELIABILITY ENTITY, INC.**

**AMENDED 2010 BUSINESS PLAN AND BUDGET**

**RESOLUTION OF THE BOARD OF DIRECTORS OF  
TEXAS RELIABILITY ENTITY, INC.**

January 18, 2010

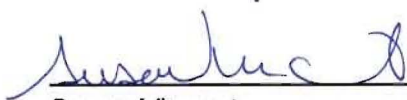
WHEREAS, the Board of Directors (Board) of Texas Reliability Entity, Inc. has determined it to be desirable and in the best interest of Texas Reliability Entity, Inc. to approve the Amended and Restated Delegation Agreement between Texas Reliability Entity, Inc., and North American Electric Reliability Corporation, including all exhibits, which is attached hereto as Exhibit A, with no material changes;

THEREFORE be it RESOLVED, that the Board hereby approves the Amended and Restated Delegation Agreement, including all exhibits, which is attached hereto as Exhibit A and incorporated herein for all purposes, with no material changes.

CORPORATE SECRETARY'S CERTIFICATE

I, Susan Vincent, Corporate Secretary of Texas Reliability Entity, Inc. do hereby certify that, at the January 18, 2010 Texas Reliability Entity, Inc. Board of Directors Meeting, the Board of Directors of Texas Reliability Entity, Inc. approved the above referenced resolution. The motion passed by unanimous voice vote.

IN WITNESS WHEREOF, I have hereunto set my hand this 18th day of January, 2010.



\_\_\_\_\_  
Susan Vincent  
Corporate Secretary

## **EXHIBIT A**

**[EXHIBIT A TO THE RESOLUTION IS NOT INCLUDED HERE –**

**SEE ATTACHMENT 1 TO THE PETITION]**

---

**RESOLUTION OF THE BOARD OF DIRECTORS OF  
TEXAS RELIABILITY ENTITY, INC.**

January 18, 2010

WHEREAS, the Board of Directors ("Board") of Texas Reliability Entity, Inc. a Texas non-profit corporation, has determined it to be desirable and in the best interest of Texas Reliability Entity, Inc. to approve the Amended 2010 Business Plan and Budget, which is attached hereto as Exhibit A, with no material changes, for submission to North American Electric Reliability Corporation and the Federal Energy Regulatory Commission;

THEREFORE be it RESOLVED, that the Board hereby approves the Amended 2010 Business Plan and Budget, which is attached hereto as Exhibit A and incorporated herein for all purposes, with no material changes.

CORPORATE SECRETARY'S CERTIFICATE

I, Susan Vincent, Corporate Secretary of Texas Reliability Entity, do hereby certify that, at the January 18, 2010 Texas Reliability Entity Board of Directors Meeting, the Board of Directors of Texas Reliability Entity approved the above referenced resolution. The motion passed by unanimous voice vote.

IN WITNESS WHEREOF, I have hereunto set my hand this 18th day of January, 2010.



\_\_\_\_\_  
Susan Vincent  
Corporate Secretary

## **EXHIBIT A**

**[EXHIBIT A TO THE RESOLUTION IS NOT INCLUDED HERE –**

**SEE ATTACHMENT 4 TO THE PETITION]**



**ATTACHMENT 8**

**RESOLUTION OF THE NERC BOARD OF TRUSTEES**

**APPROVING THE AMENDED AND RESTATED DELEGATION AGREEMENT**

**BETWEEN NERC AND TEXAS RELIABILITY ENTITY, INC.,**

**APPROVING TERMINATION OF AMENDED AND RESTATED DELEGATION**

**AGREEMENT BETWEEN NERC AND TEXAS REGIONAL ENTITY,**

**A DIVISION OF ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.,**

**AND APPROVING THE TEXAS RELIABILITY ENTITY, INC.**

**AMENDED 2010 BUSINESS PLAN AND BUDGET**

**RESOLUTION**  
**Adopted by the Board of Trustees of the**  
**North American Electric Reliability Corporation**  
**February 16, 2010**

WHEREAS, the Corporation is authorized by Section 215 of the Federal Power Act, 18 C.F.R. §39.8, and Section 1200 of the Corporation's Rules of Procedure, to enter into, subject to approval of the Federal Energy Regulatory Commission ("Commission"), agreements to delegate the Corporation's authority as the Electric Reliability Organization to regional entities for the purpose of proposing reliability standards to the Corporation and enforcing compliance with reliability standards, and

WHEREAS, the Corporation has entered into an Amended and Restated Delegation Agreement with Texas Regional Entity, a division of Electric Reliability Corporation of Texas, Inc. ("ERCOT") by which the Corporation has delegated to Texas Regional Entity authority as the regional entity for the region described in Exhibit A to such agreement (the "ERCOT Region"), which agreement, as amended from time to time, has been approved by the Commission, and

WHEREAS, a new corporation, Texas Reliability Entity, Inc., has been formed for the purpose of accepting a delegation of authority from the Corporation as regional entity for the ERCOT Region, as successor to Texas Regional Entity, and

WHEREAS, ERCOT has made known to the Corporation its willingness to terminate its delegation agreement with the Corporation, effective on the date that the delegation of authority to Texas Reliability Entity, Inc., as the regional entity for the ERCOT Region becomes effective, and

WHEREAS, the officers and staff of the Corporation and Texas Reliability Entity, Inc., have negotiated a proposed agreement by which the Corporation would delegate to Texas Reliability Entity, Inc., authority as the regional entity for the ERCOT Region, a copy of which was provided to the Board in the agenda materials, and have recommended to the Board of Trustees that such agreement be approved by the Corporation and submitted to the Commission for approval, and

WHEREAS, the Corporation is authorized by 18 C.F.R. §39.4 and by Section 1100 of the Corporation's Rules of Procedure to review and approve, and to submit to the Commission for approval, an annual and any supplemental or amended business plans and budgets for each regional entity, and

WHEREAS, the Corporation and the Commission have previously approved a business plan and budget for the regional entity functions of Texas Regional Entity, a division of ERCOT, for the year 2010, and

WHEREAS, the officers and staff of the Corporation have reviewed a proposed Amended 2010 Business Plan and Budget prepared and submitted by Texas Reliability Entity, Inc. for its proposed activities as regional entity for the ERCOT Region as successor to Texas

Regional Entity, a division of ERCOT, a copy of which was provided to the Board in the agenda materials, and have recommended that such Amended 2010 Business Plan and Budget be approved by the Corporation and submitted to the Commission for approval, and

WHEREAS, under such Amended 2010 Business Plan and Budget Texas Reliability Entity will need to collect additional assessments for 2010, in the amount shown in the Amended 2010 Business Plan and Budget, with such amount to be collected through increased assessments for the third and fourth quarters of 2010; and

WHEREAS, the officers and staff of the Corporation have reviewed the proposed bylaws, regional standards development process, compliance monitoring and enforcement program, and the proposed resources, plans and operations of Texas Reliability Entity, Inc., and have advised the Board that Texas Reliability, Entity, Inc. will satisfy the requirements for delegation of authority as the regional entity specified in Section 215 of the Federal Power Act, 18 C.F.R. §39.8, applicable orders of the Commission, and applicable provisions of the Corporation's Rules of Procedure,

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF TRUSTEES OF THE CORPORATION:

1. Subject to the approval of the Commission, the Corporation should enter into an agreement with Texas Reliability Entity, Inc., in substantially the form presented to the Board, to delegate the authority to Texas Reliability Entity as the regional entity for the ERCOT Region, as more fully set forth in such agreement; the Chief Executive Officer of the Corporation is authorized to execute such agreement on behalf of the Corporation, subject to approval of the Commission.

2. The officers of the Corporation are authorized and directed to submit the proposed agreement with Texas Reliability Entity, Inc., in substantially the form presented to the Board, to the Commission for approval.

3. The effective date of the agreement with Texas Reliability Entity, Inc., shall be no more than sixty (60) calendar days following the date of the Commission's order approving the agreement, or such other date as specified by the Commission.

4. The Chief Executive Officer of the Corporation is authorized and directed to negotiate and enter into an appropriate agreement with ERCOT terminating the Corporation's delegation agreement with Texas Regional Entity, a division of ERCOT, with such termination to be effective on the effective date of the delegation agreement with Texas Reliability Entity, Inc.

5. The proposed Amended 2010 Business Plan and Budget of Texas Reliability Entity, Inc., as presented to the Board, is hereby approved for submission to the Commission; the officers and staff of the Corporation are authorized and directed to submit the Amended 2010 Business Plan and Budget of Texas Reliability Entity, Inc., in substantially the form presented to the Board, to the Commission for approval, together with a request for an increase in the authorized assessments to be collected for the third and fourth quarters of 2010 sufficient to collect the needed additional funds, as indicated in the Amended 2010 Business Plan and Budget.

6. The officers and staff of the Corporation are authorized and directed to take such other actions on behalf of the Corporation as are reasonably necessary to carry out these resolutions.