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January 24, 2011

**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. RR010-13-000  
Petition for Approval of Amendment to the 2011 Business Plan and Budget  
Of Texas Reliability Entity, Inc. and Amendment to Exhibit E to  
Delegation Agreement with Texas Reliability Entity, Inc.**

Dear Ms. Bose:

The North American Electric Reliability Corporation (NERC) hereby submits a Petition requesting (1) pursuant to 18 C.F.R. §39.4, approval of an amendment to the 2011 Business Plan and Budget of Texas Reliability Entity, Inc., a Regional Entity of NERC, and (2) pursuant to §215(e)(4) of the Federal Power Act and 18 C.F.R. §39.8, approval of an amendment to Exhibit E to the Delegation Agreement between NERC and Texas Reliability Entity, Inc.

NERC's filing consists of: (1) this transmittal letter, (2) the narrative text of the Petition, and (3) Attachments 1 through 4, all of which are being transmitted in a single pdf file. The Table of Contents to the Petition lists the four attachments.

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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### ATTACHMENTS

**Attachment 1:** Texas Reliability Entity, Inc. 2011 Business Plan and Budget Amendment

**Attachment 2:** Revised Delegation Agreement Between NERC and Texas Reliability Entity with Amended Exhibit E – Clean version

**Attachment 3:** Revised Delegation Agreement Between NERC and Texas Reliability Entity with Amended Exhibit E – Redlined version

**Attachment 4:** Resolution of the Board of Directors of Texas Reliability Entity, Inc.

## **I. INTRODUCTION**

The North American Electric Reliability Corporation (“NERC”), pursuant to 18 C.F.R. §39.4, requests Commission approval of an Amendment to the 2011 Business Plan and Budget of Texas Reliability Entity, Inc. (“Texas RE”), one of the eight Regional Entities with delegated authority from NERC. Additionally, pursuant to §215(e)(4) of the Federal Power Act and 18 C.F.R. §39.8, NERC requests Commission approval of an amendment to §6 of Exhibit E to the Delegation Agreement between NERC and Texas RE.

The primary purpose of the Amendment to Texas RE’s 2011 Business Plan and Budget (“Amended 2011 Budget”) is to recognize a significant change in Texas RE’s non-statutory activities for 2011. As described in Texas RE’s 2011 Business Plan and Budget that was accepted by the Commission in its Order issued October 21, 2010 (“Approved 2011 Budget”),<sup>1</sup> Texas RE had planned to end its non-statutory activity as the Reliability Monitor in the Electric Reliability Council of Texas (“ERCOT”) region for the Public Utility Commission of Texas (“PUCT”) as of December 31, 2010, and to perform, during 2011, only necessary activities to support its previous work as Reliability Monitor as the PUCT and the ERCOT Region transitioned to another entity as Reliability Monitor. However, in late 2010, the PUCT requested, and Texas RE agreed, to continue to act as the Reliability Monitor through at least December 31, 2013. As a result of the expanded non-statutory activities for 2011, Texas RE’s non-statutory budget for 2011 increases from \$265,969 to \$969,975. The non-statutory activities

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<sup>1</sup> *North American Electric Reliability Corporation, Order Conditionally Accepting 2011 Business Plan and Budget of the North American Electric Reliability Corporation and Ordering Compliance Filing*, 133 FERC ¶ 61,062 (2010). The Texas RE Approved 2011 Budget was submitted to the Commission as Attachment 9 to the *Petition of the North American Electric Reliability Corporation for Acceptance of its 2011 Business Plan and Budget and the 2011 Business Plans and Budgets of Regional Entities and for Approval of Proposed Assessments to Fund Budgets*, filed August 24, 2010.

will be funded by payments from ERCOT under Texas RE's contract for these services with the PUCT and ERCOT.

The Texas RE Amended 2011 Budget also provides for a decrease of \$80,108 in Texas RE's budget for statutory activities. This reduction reflects the net impact of (1) the unplanned acquisition by Texas RE in December 2010 of certain computer hardware and software, which results, in 2011, in increased Consultants & Contracts expense, Office Costs and Depreciation Expense from the Approved 2011 Budget,<sup>2</sup> and (2) allocation of additional Indirect Expenses from the statutory budget to the non-statutory budget, due to the fact that Texas RE will have an increased number of non-statutory full-time equivalent employees ("FTEs") to carry out its expanded non-statutory activities. Because of the small reduction (approximately 0.85%) in Texas RE's statutory funding requirement, Texas RE is not proposing to reduce its previously-approved 2011 statutory assessments to load-serving entities, thereby resulting in an \$80,108 increase to the budgeted contribution to statutory Working Capital Reserve.

The purpose of the amendment to §6, "Budget and Funding for Texas RE's Non-Statutory Activities," of Exhibit E to the NERC-Texas RE Delegation Agreement is to state that through at least December 31, 2013, Texas RE's non-statutory activities will include continuing to act as the ERCOT region Reliability Monitor.

**Attachment 1** to this filing is the Texas RE Amended 2011 Budget. **Attachment 2** is a clean version of the amended NERC-Texas RE Delegation Agreement, incorporating the amendment to §6 of Exhibit E. **Attachment 3** is a redlined version of the amended NERC-Texas RE Delegation Agreement, showing the amendment to §6 of Exhibit E in legislative

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<sup>2</sup> As described later in this filing, the newly-acquired computer hardware and software will be used in both statutory and non-statutory activities and therefore the Amended 2011 Budget allocates the related increased expenses between the statutory and non-statutory budgets.

format.<sup>3</sup> **Attachment 4** is the resolution of the Texas RE Board of Directors approving the Texas RE Amended 2011 Budget and the amendment to Exhibit E of the NERC-Texas RE Delegation Agreement.

The Texas RE Board of Directors approved the Texas RE Amended 2011 Budget and the amendment to Exhibit E of the NERC-Texas RE Delegation Agreement on January 7, 2011. The NERC Board of Trustees approved the Texas RE Amended 2011 Budget and the amendment to Exhibit E of the NERC-Texas RE Delegation Agreement on January 24, 2011.

## **II. NOTICES AND COMMUNICATIONS**

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

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<sup>3</sup> **Attachment 3** is redlined against the Amended and Restated NERC-Texas RE Delegation Agreement filed on June 9, 2010 as Attachment 8 to NERC’s *Petition for Approval of Revised Pro Forma Delegation Agreement, Revised Delegation Agreements with the Eight Regional Entities, and Amendments to the NERC Rules of Procedure*, and approved in the Commission’s October 21, 2010 Order, to be effective January 1, 2011. *Order Conditionally Approving Revised Pro Forma Delegation Agreement, Revised Delegation Agreements with Regional Entities, Amendments to Rules of Procedure and Certain Regional Entity Bylaws*, 133 FERC ¶ 61,061 (2010) (“October 21, 2010 Order”). The amended NERC-Texas RE Delegation Agreement submitted in this filing does not include revisions required by the October 21, 2010 Order, which will be submitted in a compliance filing due on or before February 18, 2010.

### **III. PROPOSED AMENDMENT TO THE 2011 BUSINESS PLAN AND BUDGET OF TEXAS RELIABILITY ENTITY, INC.**

The Texas RE Amended 2011 Budget (**Attachment 1** to this filing) is not a complete rewrite of the Approved 2011 Budget, but rather provides only the new or additional information necessary to the budget amendment. Statements of Activities and other tables have been provided for the statutory and non-statutory budgets, and for the statutory programs and administrative (indirect) programs, showing the amounts included in the Approved 2011 Budget, the amounts in the Amended 2011 Budget, and the differences (where applicable) between the Amended 2011 Budget and the Approved 2011 Budget.

#### **A. Amendment to Non-Statutory Budget**

From 2007 through 2010, Texas RE (and its predecessor entity, Texas Regional Entity<sup>4</sup>), acted as the ERCOT region Reliability Monitor for the PUCT. In performing this non-statutory activity, Texas RE conducted audits, investigations and other monitoring and reporting of ERCOT market participants' compliance with reliability-related ERCOT Protocols and Operating Guides. In preparing its 2011 Business Plan and Budget, however, Texas RE assumed that it would terminate its activities as the Reliability Monitor as of December 31, 2010; and in 2011, would perform only very limited non-statutory activities consisting primarily of transitional support to the PUCT relating to the compliance monitoring and reporting activities it performed prior to 2011, such as supporting cases that arose out of Texas RE's pre-2011 activities as the Reliability Monitor. In its Approved 2011 Budget, Texas RE budgeted only \$265,969 (including allocated Indirect Expenses), and only 1.0 FTE, for these transitional support activities.

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<sup>4</sup> The Commission approved the Delegation Agreement between NERC and Texas RE, as the successor to Texas Regional Entity, in a letter Order dated May 6, 2010 (131 FERC ¶ 61,112). The transition from Texas Regional Entity to Texas RE was effective on July 1, 2010.

However, in late 2010, the PUCT requested that Texas RE continue to act as the Reliability Monitor during the period January 1, 2011 through at least December 31, 2013. The Texas RE Board of Directors approved entering into an extension of the contract with the PUCT and ERCOT to act as Reliability Monitor through 2013, subject to obtaining approval of NERC and the Commission.

As the ERCOT region Reliability Monitor, Texas RE will perform the audits, investigations, monthly metrics reviews and other monitoring and reporting of ERCOT market participants' compliance with reliability-related ERCOT Protocols and Operating Guides ("Regional Rules") that Texas RE and its predecessor organization performed in 2010 and prior years. Texas RE will also monitor the stakeholder Regional Rules creation and modification process and assist the PUCT with comments on proposed changes to the Regional Rules that impact reliability. Finally, Texas RE will provide testimony and technical support to the PUCT for its enforcement cases. As with the pre-extension contract, the PUCT will direct the work performed by Texas RE as Reliability Monitor, and ERCOT will make the payments to Texas RE for this work from ERCOT's PUCT-approved system administration fee.

Based on continuing its role as the ERCOT region Reliability Monitor in 2011, Texas RE's Amended 2011 Budget provides for an increase in its non-statutory budget from \$265,969 to \$969,975. The increase in the non-statutory budget of \$704,006 is comprised of a \$590,755 increase in Direct Expenses and a \$113,252 increase in Indirect Expenses.

The \$590,755 increase in Direct Expenses is primarily comprised of a \$544,309 increase for Personnel Expenses. Texas RE will add 4 FTEs (for a total of 5 FTEs) to its non-statutory staffing to handle the increased workload. One of the 5 FTEs is actually a "composite" comprised of the time of management and administrative personnel who perform both statutory



and non-statutory activities. Additionally, Travel Expense is increased by \$12,222 to support compliance audits Texas RE will conduct during 2011 as Reliability Monitor. Finally, Operating Expenses are increased by a total of \$34,234, primarily for telecommunications, maintenance and other expenses to support the computer hardware and software that Texas RE purchased in late 2010 to enable it to electronically access ERCOT system data. These Information Technology (“IT”) costs are discussed in greater detail under Amendment to Statutory Budget in §III.B below. Because the IT system that enables Texas RE to electronically access ERCOT data is required by, and will be used fairly equally in, the performance of both statutory activities and non-statutory activities, the related Operating Expenses are allocated 50% to the statutory budget and 50% to the non-statutory budget.

The \$113,252 increase in non-statutory Indirect Expenses in the Amended 2011 Budget is comprised of (i) an increased allocation (\$23,919) of Texas RE’s Indirect Expenses to non-statutory activities as a result of the increase in non-statutory staffing (the allocation of budgeted Indirect Expenses between statutory and non-statutory is based on the respective numbers of budgeted FTEs), and (ii) the allocation to non-statutory activities of 50% (\$89,333) of the Depreciation Expense on the IT hardware and software purchased in December 2010. The Depreciation Expense on the IT hardware and software is depicted on the non-statutory Statement of Activities as part of the allocated Indirect Expense rather than as a separate line item for Depreciation Expense.

All of the non-statutory expenses associated with the Reliability Monitor function, including the allocated Indirect Expenses, will be funded by payments from ERCOT to Texas RE pursuant to the contract among Texas RE, the PUCT and ERCOT.

NERC has evaluated Texas RE's proposed additional non-statutory activities for 2011, and has concluded that continuing to act as the ERCOT region Reliability Monitor under the direction of the PUCT will not adversely impact Texas RE's ability to effectively carry out its statutory activities. The increased non-statutory activities for 2011 constitute a continuation of activities that Texas RE and its predecessor entity performed in 2007 through 2010. In the Amended 2011 Budget, Texas RE has budgeted for, and plans to add, additional staff to perform these previously-unbudgeted non-statutory activities. Finally, in addition to budgeting increased Direct Expenses to perform its activities as the ERCOT region Reliability Monitor, Texas RE has appropriately allocated an additional amount of Indirect Expenses (including Depreciation Expense) to the non-statutory budget, in accordance with established budgeting principles used by NERC and the Regional Entities.

#### **B. Amendment to Statutory Budget**

In the Amended 2011 Budget, Texas RE's statutory budget decreases by a net amount of \$80,108 before contribution to the Working Capital Reserve. The \$80,108 net decrease in the statutory budget is comprised of:

- An increase in Operating Expenses of \$33,144 for the statutory share of the increased Operating Expenses associated with the IT hardware and software purchased in late 2010; the \$33,144 of increased Operating Expenses is comprised of (1) \$8,400 for increased telecommunications costs and related costs required to enable the electronic access to ERCOT system data, and (2) \$24,744 for the maintenance agreement for the new IT system.
- Additional Depreciation Expense of \$89,333, which is 50% of the Depreciation Expense on the new IT system.
- Allocation of \$113,252 of Indirect Expenses to the non-statutory budget (including 50% of the Depreciation Expense (\$89,333) on the new IT system), as described in §III.A above.<sup>5</sup>

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<sup>5</sup> The net impact of these first three items is an increase in budgeted statutory Expenses of \$9,225 over the Approved 2011 Budget.

- An additional Decrease in Fixed Assets of \$89,333, representing the impact of the previously unbudgeted Depreciation Expense on the new IT system.

Because Texas RE's predecessor entity was a division of ERCOT, it had electronic access to ERCOT system data, and obtained IT services from ERCOT. In developing the Approved 2011 Budget, and assuming that it would no longer act as the ERCOT Reliability Monitor in 2011, Texas RE planned to use written requests to ERCOT to obtain any data necessary for its statutory compliance monitoring and enforcement activities in 2011. However, Texas RE tested the written data request mechanism during the second half of 2010 and found it to be less efficient than being able to electronically access and store the ERCOT data. Based on this experience, and in light of the determination to continue as the Reliability Monitor in 2011, in December 2010 Texas RE purchased the IT hardware and software needed to electronically access ERCOT system data. This purchase, which was unbudgeted in 2010 and not reflected in the assumptions underlying the Approved 2011 Budget, was made using unspent 2010 funds, and was recorded as a 2010 capital expenditure.

Texas RE needs to have the direct electronic access to ERCOT system data that the newly-purchased IT hardware and software provides in order to effectively perform its non-statutory activities as the ERCOT region Reliability Monitor. Further, Texas RE can also use this IT system to more efficiently perform its statutory compliance monitoring and enforcement activities and to support its Compliance Program staff in performing its workload of statutory activities, without increasing Compliance Program resources at this time. Because the new IT system is expected to be used approximately equally in statutory activities and non-statutory activities, the related Operating Expenses and Depreciation Expense have been allocated equally between the statutory budget and the non-statutory budget.

Because the overall decrease in the statutory budget is only \$80,108, Texas RE is proposing not to revise its previously-approved statutory assessments for 2011 to reflect this budget decrease. Load-serving entities have already been notified of the 2011 assessments based on the Approved 2011 Budget, and the assessments have already been issued for the first quarter (first installment) of 2011. If the budget decrease were to be reflected in reduced statutory assessments, the amount of the decrease in the assessments would only be approximately 0.85%. The decrease in the assessment to many entities would be very small. Further, any unspent funds from the Amended 2011 Budget will be used to offset Texas RE's 2012 funding requirement. As a result of not adjusting the 2011 statutory assessments, the \$80,108 decrease in the statutory budget results in an increase of this amount in the provision for statutory Working Capital Reserve (*see* Table B-1 on page 34 of **Attachment 1**).<sup>6</sup>

#### **IV. PROPOSED AMENDMENT TO EXHIBIT E TO DELEGATION AGREEMENT**

In recognition of the change in the scope of Texas RE's non-statutory activities to include serving as the Reliability Monitor in the ERCOT region for the PUCT through at least December 31, 2013, NERC and Texas RE have agreed that §6, Budget and Funding for Texas RE's Non-Statutory Activities, of Exhibit E to the NERC-Texas RE Delegation Agreement should be amended to identify the expanded non-statutory activities. Section 6 of Exhibit E to the NERC-Texas RE Delegation Agreement effective January 1, 2011, describes only Texas RE's

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<sup>6</sup> In the summary tables for the individual statutory programs on pages 10, 12, 14, 16 and 18 of **Attachment 1**, the amounts shown for Total Funding Requirement for the Approved 2011 Budget and for the Amended 2011 Budget are the same. This presentation has been used in light of the fact that Texas RE is proposing not to reduce its 2011 statutory assessments by the amount of the \$80,108 decrease in budgeted statutory expenses. In fact, the Total Funding Requirement (before contribution to Working Capital Reserve) for each of the statutory programs decreases in the Amended 2011 Budget from the Approved 2011 Budget. For example, the revised Funding Requirement (before contribution to Working Capital Reserve) for the Reliability Standards Program under the Amended 2011 Budget (table on page 10) is \$492,520 (\$342,515 + \$148,494 + \$1,511), which is a decrease of \$5,417 from the Approved 2011 Budget.

previously-anticipated post-2010 transitional activities to provide support to the PUCT for contested enforcement cases arising out of compliance activities conducted by Texas RE as the Reliability Monitor prior to December 31, 2010.<sup>7</sup> Specifically, the first two paragraphs of §6 of Exhibit E have been amended as follows:

In addition to its delegated functions and related activities, as specified in Sections 5, 6 and 7 of the Agreement and in Section 1 of this **Exhibit E** (such delegated functions and activities referred to in this Section 6 as “statutory activities”), Texas RE performs the following other functions and activities (such other functions and activities being referred to in this Section 6 as “non-statutory activities”):

~~Texas RE does not anticipate will auditing or and investigating investigate market participants’ compliance with ERCOT Protocols and Operating Guides (ERCOT regional rules), as the ERCOT region Reliability Monitor, through a continuation of its contract with the Public Utility Commission of Texas (the “PUCT”, which directs the work) and ERCOT (the independent system operator, which makes the required contractual payment from its system administration fee), for at least an additional three-year period ending December 31, 2013.in 2011. Under this contract, Texas RE will continue to report possible non-compliance with reliability-related rules to the PUCT and will, however, need to respond to subpoenas and provide testimony and support to the Public Utility Commission of Texas (PUCT) regarding contested enforcement cases prosecuted by the PUCT. Texas RE’s ERCOT Protocol and Operating Guide compliance and enforcement audits, investigations, and reports from the period in which Texas RE conducted the compliance investigations. These non-statutory activities are subject to continuation at the end of the contract term by mutual agreement by Texas RE and the PUCT. If the decision is made to terminate or not renew this contract in the future, Texas RE would perform reduced non-statutory activities for a period of time, under a modified contract, to transition those activities to a third party.~~

[Remainder of §6 of Exhibit E is unchanged.]

**Attachment 2** to this filing is a clean version of the complete revised NERC-Texas RE Delegation Agreement including the amendment to §6 of Exhibit E. **Attachment 3** is a redlined version of the revised NERC-Texas RE Delegation Agreement (redlined against the Delegation

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<sup>7</sup> The NERC-Texas RE Delegation Agreement effective January 1, 2011 was approved by the Commission in the October 21, 2010 Order.

Agreement effective January 1, 2011), showing the amendment to §6 of Exhibit E in legislative style.<sup>8</sup>

## V. CONCLUSION

The North American Electric Reliability Corporation respectfully requests that the Commission issue an order (1) accepting the Amendment to the 2011 Business Plan and Budget of Texas Reliability Entity, Inc. (**Attachment 1** to this filing), and (2) approving the amendment to §6 of Exhibit E to the Amended and Restated Delegation Agreement between NERC and Texas RE (**Attachments 2 and 3** to this filing).

Respectfully submitted,

Gerald W. Cauley  
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Michael Walker  
Senior Vice President  
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<sup>8</sup> The clean and redlined Delegation Agreements in **Attachments 2 and 3** contain footers stating “Approved by FERC Effective January 1, 2011,” in accordance with the October 21, 2010 Order. This date will be revised based on the Commission’s Order on this Petition.

**CERTIFICATE OF SERVICE**

I hereby certify that I have served a copy of the foregoing document upon all parties listed on the official service list compiled by the Secretary in this proceeding.

Dated at Chicago, Illinois this 24th day of January, 2011.

/s/ Owen E. MacBride  
Owen E. MacBride

*Attorney for North American Electric  
Reliability Corporation*

**ATTACHMENT 1**

**TEXAS RELIABILITY ENTITY, INC.**

**2011 BUSINESS PLAN AND BUDGET AMENDMENT**





## **2011 Business Plan and Budget Amendment**

**Texas Reliability Entity, Inc.**

**Approved by:**

**Texas RE Board of Directors**

**January 7, 2011**

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## Introduction

<b>TOTAL RESOURCES</b> (in whole dollars)			
	Approved 2011 Budget	Amended 2011 Budget	Increase / (Decrease)
Statutory FTEs	49.0	49.0	-
Non-statutory FTEs	1.0	5.0	4.0
<b>Total FTEs</b>	50.0	54.0	4.0
Statutory Expenses	\$ 9,517,049	\$ 9,526,274	9,225
Non-Statutory Expenses	\$ 265,969	\$ 969,974	704,006
<b>Total Expenses</b>	\$ 9,783,018	\$ 10,496,249	713,231
Statutory Inc(Dec) in Fixed Assets	\$ (153,085)	\$ (242,418)	(89,333)
Non-Statutory Inc(Dec) in Fixed Assets	\$ -	\$ -	-
<b>Total Inc(Dec) in Fixed Assets</b>	\$ (153,085)	\$ (242,418)	(89,333)
Statutory Working Capital Requirement*	\$ 127,459	\$ 207,567	80,108
Non-Statutory Working Capital Requirement**	\$ -	\$ -	-
<b>Total Working Capital Requirement</b>	\$ 127,459	\$ 207,567	80,108
Total Statutory Funding Requirement	\$ 9,491,423	\$ 9,491,423	-
Total Non-Statutory Funding Requirement	\$ 265,969	\$ 969,975	704,006
<b>Total Funding Requirement</b>	\$ 9,757,392	\$ 10,461,398	704,006
<b>Texas RE Statutory Funding Assessments</b>	\$ 9,227,823	\$ 9,227,823	-
<b>Texas RE Non-Statutory Fees</b>	\$ 265,969	\$ 969,975	704,006
NEL	308,277,759	308,277,759	-
NEL%	100%	100%	-

\*Refer to Table B-1 on page 34 in Section B.

\*\*Refer to the Reserve Analysis on page 42 in Section C.

### Overview

Texas Reliability Entity, Inc. (Texas RE) is a Texas non-profit corporation that is the Regional Entity for the Electric Reliability Council of Texas, Inc. (ERCOT) region and preserves and enhances reliability across the ERCOT region by encouraging a culture of compliance among all users, owners, and operators of the Bulk-Power System (BPS). Texas RE and North American Electric Reliability Corporation (NERC) have executed an Amended and Restated Delegation Agreement (Delegation Agreement) for the ERCOT region, and this Delegation Agreement was approved by the Federal Energy Regulatory Commission (FERC) on May 6, 2010. A revised Delegation Agreement between NERC and Texas RE, to be in effect for a five (5)-year period beginning January 1, 2011, was approved by FERC by its order dated October 21, 2010.

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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 addition to performing its statutory duties as a Regional Entity, Texas RE will also continue to perform non-statutory duties as the ERCOT region Reliability Monitor in 2011. Texas RE's 2011 Business Plan and Budget that was accepted by FERC on October 21, 2010 (Approved 2011 Budget) anticipated that in 2011 Texas RE would not perform the audits, investigations, or other monitoring or reporting of market participants' compliance with reliability-related ERCOT Protocols and Operating Guides (ERCOT Regional Rules) that it performed in 2010 and its predecessor Texas Regional Entity performed in 2007 through 2010. For this reason, the Approved 2011 Budget included very limited non-statutory duties consisting primarily of transitional support to the PUCT regarding Texas RE's previous non-statutory compliance and reporting activities.

In late 2010, the PUCT requested that Texas RE continue to monitor compliance with the ERCOT Regional Rules as the ERCOT region Reliability Monitor for at least 2011 through 2013. The Texas RE Board of Directors approved Texas RE's executing a contract extension to continue to perform these non-statutory activities under the direction of the PUCT, subject to obtaining approval from NERC and FERC. These non-statutory services will be provided under an amendment and extension of the current contract between Texas RE, the PUCT (which directs the work), and ERCOT (the ERCOT region independent system operator, which will provide the contractual payment to Texas RE from its PUCT-approved system administration fee).

Texas RE submits this proposed Amendment to its Approved 2011 Budget (Amended 2011 Budget) to modify the 2011 Approved Budget to reflect the requested increase in Texas RE's non-statutory activities and funding. Texas RE's non-statutory budget will increase from \$265,969, as set forth in the Approved 2011 Budget, to \$969,975.

All Texas RE non-statutory activities will be funded by the fees paid to it pursuant to Texas RE's contract with the PUCT and ERCOT. Texas RE's statutory funding will be maintained separately from and will never be used to pay for any costs or expenses of its non-statutory activities, due to the resulting revised allocation of indirect expenses between statutory and non-statutory activities.

The increase in non-statutory activities will cause a minor decrease to Texas RE's 2011 statutory budget, as described below.

In addition, Texas RE made an unbudgeted purchase of hardware and software in December 2010 (using unspent 2010 funds), to support Texas RE's direct electronic access to and storage of certain ERCOT region system data to which Texas Regional Entity had electronic access when it was affiliated with and obtained information technology (IT) services from ERCOT. The associated depreciation expense and additional maintenance expenses for the new hardware and software, were not anticipated or reflected in the Approved 2011 Budget but are included in the Amended 2011 Budget.

Texas RE needs to have direct electronic access to the ERCOT system data to effectively perform the 2011 non-statutory activities. Texas RE can also use this system data to more efficiently perform its statutory compliance activities and help enable current compliance staff to perform its increased statutory workload without increasing compliance resources at this time.

When Texas RE submitted the Approved 2011 Budget, it had planned to use written requests for information to obtain this data from ERCOT for its statutory compliance activities during 2011. However, the written data request mechanism (which Texas RE tested in the second half of 2010) has not been as efficient as electronic accessing and storing the needed data. Texas RE purchased the hardware and software needed to electronically access this ERCOT region

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system data in December 2010 as a capital expense. The 2011 depreciation and maintenance expense of this hardware and software will be allocated 50% to Texas RE's statutory expenses and 50% to Texas RE's non-statutory expenses in 2011, because the data obtained and stored using this system is required for and will be used fairly equally by statutory and non-statutory activities.

As described in detail below, although Texas RE's amended statutory budget is decreasing by a minimal amount (\$80K), Texas RE is not proposing to change the 2011 ERCOT region assessment. Load-serving entities have been previously notified of and have planned on assessments based upon the Approved 2011 Budget, NERC has already issued assessments for the first quarter based upon the Approved 2011 Budget, the amount of the change to the assessment would only be approximately 0.85%, and any unspent funds would be used to offset Texas RE's 2012 funding requirement. (If the assessment were to be modified, Texas RE's Amended 2011 Budget would cause Texas RE's funding requirement to decrease by \$78,213 with a cash reserve increase of \$1,895.) Therefore, in the Amended 2011 statutory Budget, the \$80K decrease with no offsetting reduction in assessments results in an \$80K increase in the provision for statutory working capital reserve. Further, as a result, in the tables provided in each individual program section below, the "Total Funding Requirement" amount shown for the Amended 2011 Budget is the same as the amount shown for the Approved 2011 Budget.

## **Overview of Statutory Cost Impacts of Amendment to the 2011 Budget**

### **Funding**

- No Change.

### **Personnel Expenses**

- Statutory personnel expenses are not changing.

### **Meeting Expenses**

- Travel expenses are not changing.

### **Operating Expenses**

- Contract costs are increasing \$8,400 from the Approved 2011 Budget to the Amended 2011 Budget primarily for the increased telecom and related costs required to enable the electronic access to ERCOT system data (not contemplated in the Approved 2011 Budget).
- Office Costs are increasing \$24,744 primarily for the maintenance agreement for the IT systems that electronically access and store ERCOT system data.
- Depreciation is increasing \$89,333 for the hardware and software purchased in December 2010 and used to electronically access and store ERCOT system data.

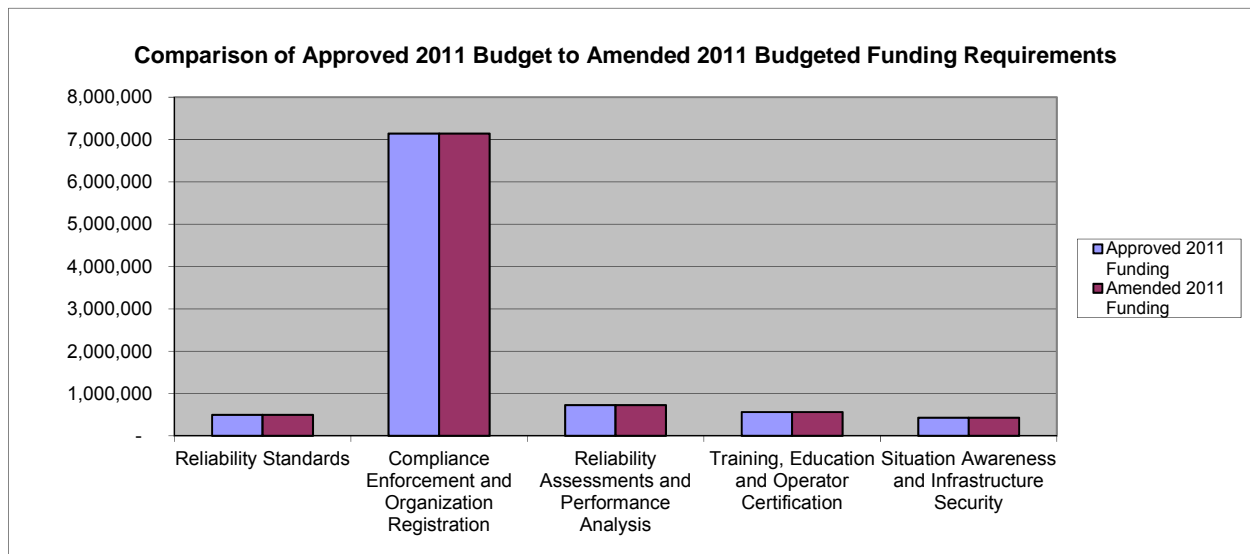
### **Indirect Expenses**

- Indirect expenses are decreasing by \$113,252, primarily due to the offset of general expenses such as rent, security, and certain IT services by non-statutory funding (since the non-statutory activities will be a greater percentage of Texas RE's overall budget under the Amended 2011 Budget, there is a resulting increase in allocation of indirect expenses to the non-statutory budget and decrease in allocation of indirect expenses to the statutory budget).

### **Fixed Assets**

- Fixed Assets are increasing due to the December 2010 purchase of the hardware and software used to electronically access ERCOT region system data. The increase in these fixed assets causes a corresponding increase in the depreciation expense for these assets.

Statutory Expenses (Including Fixed Assets) by Program	Approved 2011 Budget	Amended 2011 Budget	Variance	
			Amended 2011 Budget v Approved 2011 Budget	Variance %
Reliability Standards	497,938	492,521	5,417	1.1%
Compliance Enforcement and Organization Registration	7,142,058	7,086,749	55,309	0.8%
Reliability Assessments and Performance Analysis	729,533	720,791	8,742	1.2%
Training, Education and Operator Certification	561,336	556,277	5,059	0.9%
Situation Awareness and Infrastructure Security	433,099	427,518	5,581	1.3%
<b>Total Statutory Expenses (includes change in Fixed Assets)</b>	<b>9,363,964</b>	<b>9,283,855</b>	<b>80,108</b>	



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

Total FTE's by Program Area	Approved 2011 Budget	Amended Direct FTEs 2011 Budget	Amended Shared FTEs <sup>1</sup> 2011 Budget	Amended Total FTEs 2011 Budget	Variance from Approved 2011 Budget
<b>STATUTORY</b>					
<b>Operational Programs</b>					
Reliability Standards	1.97	1.97	0.00	1.97	0.00
Compliance and Organization Registration and Certification	29.12	28.72	0.40	29.12	0.00
Training and Education	1.84	1.84	0.00	1.84	0.00
Reliability Assessment and Performance Analysis	3.18	3.18	0.00	3.18	0.00
Situation Awareness and Infrastructure Security	2.03	2.03	0.00	2.03	0.00
<b>Total FTEs Operational Programs</b>	<b>38.14</b>	<b>37.74</b>	<b>0.40</b>	<b>38.14</b>	<b>0.00</b>
<b>Administrative Programs</b>					
Technical Committees and Member Forums	0.50	0.50	0.00	0.50	0.00
General & Administrative	1.71	1.66	0.05	1.71	0.00
Information Technology	2.60	2.20	0.40	2.60	0.00
Legal and Regulatory	3.02	2.97	0.05	3.02	0.00
Human Resources	1.03	1.03	0.00	1.03	0.00
Finance and Accounting	2.00	1.90	0.10	2.00	0.00
<b>Total FTEs Administrative Programs</b>	<b>10.86</b>	<b>10.26</b>	<b>0.60</b>	<b>10.86</b>	<b>0.00</b>
<b>Total FTEs</b>	<b>49.00</b>	<b>48.00</b>	<b>1.00</b>	<b>49.00</b>	<b>0.00</b>

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

## Approved 2011 Statutory Budget and Amended 2011 Statutory Budget Comparisons

<b>Statement of Activities and Capital Expenditures</b>			
<b>Approved 2011 Budget &amp; Amended 2011 Budget</b>			
<b>STATUTORY</b>			
	Approved 2011 Budget	Amended 2011 Budget	Variance Amended 2011 Budget v Approved 2011 Budget Over(Under)
<b>Funding</b>			
<b>Texas RE Funding</b>			
Texas RE Assessments	\$ 9,227,823	\$ 9,227,823	\$ -
Penalty Sanctions	20,000	20,000	-
<b>Total Texas RE Funding</b>	<b>\$ 9,247,823</b>	<b>\$ 9,247,823</b>	<b>\$ -</b>
Membership Dues	27,500	27,500	-
Federal Grants	-	-	-
Services & Software	-	-	-
Workshops	215,500	215,500	-
Interest	600	600	-
Miscellaneous	-	-	-
<b>Total Funding</b>	<b>\$ 9,491,423</b>	<b>\$ 9,491,423</b>	<b>\$ -</b>
<b>Expenses</b>			
<b>Personnel Expenses</b>			
Salaries	\$ 4,795,004	\$ 4,795,004	\$ -
Payroll Taxes	423,650	423,650	-
Benefits	589,499	589,499	-
Retirement Costs	693,219	693,219	-
<b>Total Personnel Expenses</b>	<b>\$ 6,501,372</b>	<b>\$ 6,501,372</b>	<b>\$ -</b>
<b>Meeting Expenses</b>			
Meetings	\$ 234,300	\$ 234,300	\$ -
Travel	322,753	322,753	-
Conference Calls	12,000	12,000	-
<b>Total Meeting Expenses</b>	<b>\$ 569,053</b>	<b>\$ 569,053</b>	<b>\$ -</b>
<b>Operating Expenses</b>			
Consultants & Contracts	\$ 608,171	\$ 616,571	\$ 8,400
Office Rent	499,000	499,000	-
Office Costs	224,495	249,239	24,744
Professional Services	750,000	750,000	-
Miscellaneous	-	-	-
Depreciation	443,085	532,418	89,333
<b>Total Operating Expenses</b>	<b>\$ 2,524,751</b>	<b>\$ 2,647,228</b>	<b>\$ 122,477</b>
<b>Total Direct Expenses</b>	<b>\$ 9,595,176</b>	<b>\$ 9,717,654</b>	<b>\$ 122,477</b>
<b>Indirect Expenses</b>	<b>\$ (78,127)</b>	<b>\$ (191,379)</b>	<b>\$ (113,252)</b>
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total Expenses</b>	<b>\$ 9,517,049</b>	<b>\$ 9,526,274</b>	<b>\$ 9,225</b>
<b>Change in Assets</b>	<b>\$ (25,626)</b>	<b>\$ (34,851)</b>	<b>\$ (9,225)</b>
<b>Fixed Assets</b>			
Depreciation	(443,085)	(532,418)	(89,333)
Computer & Software CapEx	290,000	290,000	-
Furniture & Fixtures CapEx	-	-	-
Equipment CapEx	-	-	-
Leasehold Improvements	-	-	-
<b>(Incr)Dec in Fixed Assets</b>	<b>\$ 153,085</b>	<b>\$ 242,418</b>	<b>\$ 89,333</b>
Allocation of Fixed Assets	\$ -	\$ (0)	\$ (0)
<b>Change in Fixed Assets</b>	<b>153,085</b>	<b>242,418</b>	<b>89,333</b>
<b>TOTAL CHANGE IN NET ASSETS</b>	<b>\$ 127,459</b>	<b>\$ 207,567</b>	<b>\$ 80,108</b>



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## Section A – Statutory Programs

### Amended 2011 Business Plan and Budget

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**Section A — Amended 2011 Statutory Programs**
**Reliability Standards Program**

<b>Reliability Standards Program</b> (in whole dollars)			
	<b>Approved 2011 Budget</b>	<b>Amended 2011 Budget</b>	<b>Increase (Decrease)</b>
Total FTEs	1.97	1.97	-
Direct Expenses	\$ 342,515	\$ 342,515	\$ -
Indirect Expenses	\$ 153,911	\$ 148,494	\$ (5,417)
Inc(Dec) in Fixed Assets	\$ 1,511	\$ 1,511	\$ -
Total Funding Requirement	\$ 497,938	\$ 497,938	\$ -

**Program Scope, Description, Assumptions, Goals, and Key Deliverables**

The Texas RE Reliability Standards Program scope, description, assumptions, goals, and key deliverables have not changed from the Approved Budget.

## Reliability Standards Program

Funding sources and related expenses for the Reliability Standards section of the Amended 2011 Budget are shown in the table below.

<b>Statement of Activities and Capital Expenditures</b>			
<b>Approved 2011 Budget &amp; Amended 2011 Budget</b>			
<b>Reliability Standards</b>			
	Approved 2011 Budget	Amended 2011 Budget	Variance Amended 2011 Budget v Approved 2011 Budget Over(Under)
<b>Funding</b>			
<b>Texas RE Funding</b>			
Texas RE Assessments	\$ 495,484	\$ 495,484	\$ -
Penalty Sanctions	1,033	1,033	-
<b>Total Texas RE Funding</b>	<b>\$ 496,518</b>	<b>\$ 496,518</b>	<b>\$ -</b>
Membership Dues	1,420	1,420	-
Federal Grants	-	-	-
Services & Software	-	-	-
Workshops	-	-	-
Interest	-	-	-
Miscellaneous	-	-	-
<b>Total Funding</b>	<b>\$ 497,938</b>	<b>\$ 497,938</b>	<b>\$ -</b>
<b>Expenses</b>			
<b>Personnel Expenses</b>			
Salaries	\$ 236,012	\$ 236,012	\$ -
Payroll Taxes	20,967	20,967	-
Benefits	26,697	26,697	-
Retirement Costs	34,222	34,222	-
<b>Total Personnel Expenses</b>	<b>\$ 317,898</b>	<b>\$ 317,898</b>	<b>\$ -</b>
<b>Meeting Expenses</b>			
Meetings	\$ 3,700	\$ 3,700	\$ -
Travel	9,987	9,987	-
Conference Calls	-	-	-
<b>Total Meeting Expenses</b>	<b>\$ 13,687</b>	<b>\$ 13,687</b>	<b>\$ -</b>
<b>Operating Expenses</b>			
Consultants & Contracts	\$ 10,000	\$ 10,000	\$ -
Office Rent	-	-	-
Office Costs	930	930	-
Professional Services	-	-	-
Miscellaneous	-	-	-
Depreciation	-	-	-
<b>Total Operating Expenses</b>	<b>\$ 10,930</b>	<b>\$ 10,930</b>	<b>\$ -</b>
<b>Total Direct Expenses</b>	<b>\$ 342,515</b>	<b>\$ 342,515</b>	<b>\$ -</b>
<b>Indirect Expenses</b>	<b>\$ 153,911</b>	<b>\$ 148,494</b>	<b>\$ (5,417)</b>
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total Expenses</b>	<b>\$ 496,426</b>	<b>\$ 491,010</b>	<b>\$ (5,417)</b>
<b>Change in Assets</b>	<b>\$ 1,511</b>	<b>\$ 6,928</b>	<b>\$ 5,417</b>
<b>Fixed Assets</b>			
Depreciation	-	-	-
Computer & Software CapEx	10,000	10,000	-
Furniture & Fixtures CapEx	-	-	-
Equipment CapEx	-	-	-
Leasehold Improvements	-	-	-
<b>(Incr)Dec in Fixed Assets</b>	<b>\$ (10,000)</b>	<b>\$ (10,000)</b>	<b>\$ -</b>
Allocation of Fixed Assets	\$ 8,489	8,489	\$ -
<b>Change in Fixed Assets</b>	<b>(1,511)</b>	<b>(1,511)</b>	<b>-</b>
<b>TOTAL CHANGE IN NET ASSETS</b>	<b>\$ -</b>	<b>\$ 5,417</b>	<b>\$ 5,417</b>

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

<b>Compliance Monitoring and Enforcement and Organization Registration and Certification Program</b>			
(in whole dollars)			
	<b>Approved 2011 Budget</b>	<b>Amended 2011 Budget</b>	<b>Increase (Decrease)</b>
Total FTEs	29.12	29.12	-
Direct Expenses	\$ 4,991,215	\$ 5,105,292	\$ 114,077
Indirect Expenses	\$ 2,275,064	\$ 2,195,010	\$ (80,054)
Inc(Dec) in Fixed Assets	\$ (124,220)	\$ (213,553)	\$ (89,333)
Total Funding Requirement	\$ 7,142,058	\$ 7,142,058	-

### Program Scope, Description, Assumptions, Goals, and Key Deliverables

The Texas RE Compliance Monitoring and Enforcement and Organization Registration and Certification Program scope, description, assumptions, goals, and key deliverables have not changed from the Approved Budget. However, there is a budget change because of additional direct expenses and increased non-cash depreciation expenses for the hardware and software used to electronically access and store ERCOT system data.

#### Funding

- No Change.

#### Personnel Expenses

- No Change.

#### Meeting Expenses

- No Change.

#### Operating Expenses

- Office Costs are increasing \$24,744 primarily for the maintenance agreement for the hardware and software purchased in December 2010 and used to electronically access and store ERCOT system data.
- Depreciation is increasing \$89,333 for the hardware and software purchased in December 2010 and used to electronically access and store ERCOT system data.

#### Indirect Expenses

- Indirect expenses are decreasing by \$80,054, primarily due to the offset of general expenses such as rent, security, and certain IT services by non-statutory funding (since the non-statutory activities will be a greater percentage of Texas RE's overall budget under the Amended 2011 Budget, there is a resulting increase in allocation of indirect expenses to the non-statutory budget and decrease in allocation of indirect expenses to the statutory budget).

#### Fixed Assets

- The depreciation expense is increasing for the additionally purchased hardware and software which results in a change to the net fixed assets. This is because depreciation is a non-cash expense.

### 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 Amended 2011 Budget are shown in the table below.

<b>Statement of Activities and Capital Expenditures</b>			
<b>Approved 2011 Budget &amp; Amended 2011 Budget</b>			
<b>Compliance Monitoring and Enforcement and Organization Registration and Certification Program</b>			
	Approved 2011 Budget	Amended 2011 Budget	Variance Amended 2011 Budget v Approved 2011 Budget Over(Under)
<b>Funding</b>			
<b>Texas RE Funding</b>			
Texas RE Assessments	\$ 7,105,792	\$ 7,105,792	\$ -
Penalty Sanctions	15,270	15,270	-
<b>Total Texas RE Funding</b>	<b>\$ 7,121,062</b>	<b>\$ 7,121,062</b>	<b>\$ -</b>
Membership Dues	20,996	20,996	-
Federal Grants	-	-	-
Services & Software	-	-	-
Workshops	-	-	-
Interest	-	-	-
Miscellaneous	-	-	-
<b>Total Funding</b>	<b>\$ 7,142,058</b>	<b>\$ 7,142,058</b>	<b>\$ -</b>
<b>Expenses</b>			
<b>Personnel Expenses</b>			
Salaries	\$ 2,942,088	\$ 2,942,088	\$ -
Payroll Taxes	260,251	260,251	-
Benefits	367,508	367,508	-
Retirement Costs	426,603	426,603	-
<b>Total Personnel Expenses</b>	<b>\$ 3,996,450</b>	<b>\$ 3,996,450</b>	<b>\$ -</b>
<b>Meeting Expenses</b>			
Meetings	\$ -	\$ -	\$ -
Travel	245,078	245,078	-
Conference Calls	-	-	-
<b>Total Meeting Expenses</b>	<b>\$ 245,078</b>	<b>\$ 245,078</b>	<b>\$ -</b>
<b>Operating Expenses</b>			
Consultants & Contracts	\$ 256,957	\$ 256,957	\$ -
Office Rent	-	-	-
Office Costs	14,480	39,224	24,744
Professional Services	294,500	294,500	-
Miscellaneous	-	-	-
Depreciation	183,750	273,083	89,333
<b>Total Operating Expenses</b>	<b>\$ 749,687</b>	<b>\$ 863,764</b>	<b>\$ 114,077</b>
<b>Total Direct Expenses</b>	<b>\$ 4,991,215</b>	<b>\$ 5,105,292</b>	<b>\$ 114,077</b>
<b>Indirect Expenses</b>	<b>\$ 2,275,064</b>	<b>\$ 2,195,010</b>	<b>\$ (80,054)</b>
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total Expenses</b>	<b>\$ 7,266,279</b>	<b>\$ 7,300,302</b>	<b>\$ 34,023</b>
<b>Change in Assets</b>	<b>\$ (124,220)</b>	<b>\$ (158,243)</b>	<b>\$ (34,023)</b>
<b>Fixed Assets</b>			
Depreciation	(183,750)	(273,083)	(89,333)
Computer & Software CapEx	185,000	185,000	-
Furniture & Fixtures CapEx	-	-	-
Equipment CapEx	-	-	-
Leasehold Improvements	-	-	-
<b>(Incr)Dec in Fixed Assets</b>	<b>\$ (1,250)</b>	<b>\$ 88,083</b>	<b>\$ 89,333</b>
Allocation of Fixed Assets	\$ 125,470	\$ 125,470	-
<b>Change in Fixed Assets</b>	<b>124,220</b>	<b>213,553</b>	<b>89,333</b>
<b>TOTAL CHANGE IN NET ASSETS</b>	<b>\$ 0</b>	<b>\$ 55,310</b>	<b>\$ 55,310</b>

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**Reliability Assessment and Performance Analysis Program**

<b>Reliability Assessments and Performance Analysis</b>			
(in whole dollars)			
	<b>Approved 2011 Budget</b>	<b>Amended 2011 Budget</b>	<b>Increase (Decrease)</b>
Total FTEs	3.18	3.18	-
Direct Expenses	\$ 494,790	\$ 494,790	\$ -
Indirect Expenses	\$ 248,444	\$ 239,702	\$ (8,742)
Inc(Dec) in Fixed Assets	\$ (13,702)	\$ (13,702)	\$ -
Total Funding Requirement	\$ 729,533	\$ 729,533	\$ -

**Program Scope, Description, Assumptions, Goals, and Key Deliverables**

The Texas RE Reliability Assessment and Performance Analysis Program scope, description, assumptions, goals, and key deliverables have not changed from the Approved Budget.

## Reliability Assessment and Performance Analysis Program

Funding sources and related expenses for the Reliability Assessment and Performance Analysis section of the Amended 2011 Budget are shown in the table below.

<b>Statement of Activities and Capital Expenditures</b>			
<b>Approved 2011 Budget &amp; Amended 2011 Budget</b>			
<b>Reliability Assessment and Performance Analysis</b>			
	Approved 2011 Budget	Amended 2011 Budget	Variance Amended 2011 Budget v Approved 2011 Budget Over(Under)
<b>Funding</b>			
<b>Texas RE Funding</b>			
Texas RE Assessments	\$ 725,572	\$ 725,572	\$ -
Penalty Sanctions	1,668	1,668	-
<b>Total Texas RE Funding</b>	<b>\$ 727,240</b>	<b>\$ 727,240</b>	<b>\$ -</b>
Membership Dues	2,293	2,293	-
Federal Grants	-	-	-
Services & Software	-	-	-
Workshops	-	-	-
Interest	-	-	-
Miscellaneous	-	-	-
<b>Total Funding</b>	<b>\$ 729,533</b>	<b>\$ 729,533</b>	<b>\$ -</b>
<b>Expenses</b>			
<b>Personnel Expenses</b>			
Salaries	\$ 361,177	\$ 361,177	\$ -
Payroll Taxes	32,136	32,136	-
Benefits	40,421	40,421	-
Retirement Costs	52,371	52,371	-
<b>Total Personnel Expenses</b>	<b>\$ 486,105</b>	<b>\$ 486,105</b>	<b>\$ -</b>
<b>Meeting Expenses</b>			
Meetings	\$ -	\$ -	\$ -
Travel	8,685	8,685	-
Conference Calls	-	-	-
<b>Total Meeting Expenses</b>	<b>\$ 8,685</b>	<b>\$ 8,685</b>	<b>\$ -</b>
<b>Operating Expenses</b>			
Consultants & Contracts	\$ -	\$ -	\$ -
Office Rent	-	-	-
Office Costs	-	-	-
Professional Services	-	-	-
Miscellaneous	-	-	-
Depreciation	-	-	-
<b>Total Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total Direct Expenses</b>	<b>\$ 494,790</b>	<b>\$ 494,790</b>	<b>\$ -</b>
<b>Indirect Expenses</b>	<b>\$ 248,444</b>	<b>\$ 239,702</b>	<b>\$ (8,742)</b>
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total Expenses</b>	<b>\$ 743,234</b>	<b>\$ 734,492</b>	<b>\$ (8,742)</b>
<b>Change in Assets</b>	<b>\$ (13,702)</b>	<b>\$ (4,960)</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>
Allocation of Fixed Assets	\$ 13,702	13,702	-
<b>Change in Fixed Assets</b>	<b>13,702</b>	<b>13,702</b>	<b>-</b>
<b>TOTAL CHANGE IN NET ASSETS</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

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**Training, Education, and Operator Certification Program**

<b>Training, Education and Operator Certification</b>			
(in whole dollars)			
	<b>Approved 2011 Budget</b>	<b>Amended 2011 Budget</b>	<b>Increase (Decrease)</b>
Total FTEs	1.84	1.84	-
Direct Expenses	\$ 425,510	\$ 425,510	\$ -
Indirect Expenses	\$ 143,754	\$ 138,695	\$ (5,059)
Inc(Dec) in Fixed Assets	\$ (7,928)	\$ (7,928)	\$ -
Total Funding Requirement	\$ 561,336	\$ 561,336	\$ -

**Program Scope, Description, Assumptions, Goals, and Key Deliverables**

The Texas RE Training, Education, and Operator Certification Program scope, description, assumptions, goals, and key deliverables have not changed from the Approved Budget.



## Training, Education, and Operator Certification Program

Funding sources and related expenses for the Training, Education, and Operator Certification section of the Amended 2011 Budget are shown in the table below.

<b>Statement of Activities and Capital Expenditures</b>			
<b>Approved 2011 Budget &amp; Amended 2011 Budget</b>			
<b>Training, Education and Operator Certification</b>			
	Approved 2011 Budget	Amended 2011 Budget	Variance Amended 2011 Budget v Approved 2011 Budget Over(Under)
<b>Funding</b>			
<b>Texas RE Funding</b>			
Texas RE Assessments	\$ 343,544	\$ 343,544	\$ -
Penalty Sanctions	965	965	-
<b>Total Texas RE Funding</b>	<u>\$ 344,509</u>	<u>\$ 344,509</u>	<u>\$ -</u>
Membership Dues	1,327	1,327	-
Federal Grants	-	-	-
Services & Software	-	-	-
Workshops	215,500	215,500	-
Interest	-	-	-
Miscellaneous	-	-	-
<b>Total Funding</b>	<u>\$ 561,336</u>	<u>\$ 561,336</u>	<u>\$ -</u>
<b>Expenses</b>			
<b>Personnel Expenses</b>			
Salaries	\$ 155,953	\$ 155,953	\$ -
Payroll Taxes	13,831	13,831	-
Benefits	17,311	17,311	-
Retirement Costs	22,613	22,613	-
<b>Total Personnel Expenses</b>	<u>\$ 209,709</u>	<u>\$ 209,709</u>	<u>\$ -</u>
<b>Meeting Expenses</b>			
Meetings	\$ 215,500	\$ 215,500	\$ -
Travel	301	301	-
Conference Calls	-	-	-
<b>Total Meeting Expenses</b>	<u>\$ 215,801</u>	<u>\$ 215,801</u>	<u>\$ -</u>
<b>Operating Expenses</b>			
Consultants & Contracts	\$ -	\$ -	\$ -
Office Rent	-	-	-
Office Costs	-	-	-
Professional Services	-	-	-
Miscellaneous	-	-	-
Depreciation	-	-	-
<b>Total Operating Expenses</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Total Direct Expenses</b>	<u>\$ 425,510</u>	<u>\$ 425,510</u>	<u>\$ -</u>
<b>Indirect Expenses</b>	<u>\$ 143,754</u>	<u>\$ 138,695</u>	<u>\$ (5,059)</u>
<b>Other Non-Operating Expenses</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Total Expenses</b>	<u>\$ 569,264</u>	<u>\$ 564,205</u>	<u>\$ (5,059)</u>
<b>Change in Assets</b>	<u>\$ (7,928)</u>	<u>\$ (2,869)</u>	<u>\$ 5,059</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>
Allocation of Fixed Assets	\$ 7,928	7,928	\$ -
<b>Change in Fixed Assets</b>	<u>7,928</u>	<u>7,928</u>	<u>-</u>
<b>TOTAL CHANGE IN NET ASSETS</b>	<u>\$ 0</u>	<u>\$ 5,059</u>	<u>\$ 5,059</u>

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**Situation Awareness and Infrastructure Security Program**

<b>Situation Awareness and Infrastructure Security</b>			
(in whole dollars)			
	<b>Approved 2011 Budget</b>	<b>Amended 2011 Budget</b>	<b>Increase (Decrease)</b>
Total FTEs	2.03	2.03	-
Direct Expenses	\$ 283,248	\$ 283,248	\$ -
Indirect Expenses	\$ 158,598	\$ 153,017	\$ (5,581)
Inc(Dec) in Fixed Assets	\$ (8,746)	\$ (8,746)	\$ -
Total Funding Requirement	\$ 433,099	\$ 433,099	\$ -

**Program Scope, Description, Assumptions, Goals, and Key Deliverables**

The Texas RE Situation Awareness and Infrastructure Security Program scope, description, assumptions, goals, and key deliverables have not changed from the Approved Budget.

## Situation Awareness and Infrastructure Security Program

Funding sources and related expenses for the Situation Awareness and Infrastructure Security section of the Amended 2011 Budget are shown in the table below.

<b>Statement of Activities and Capital Expenditures</b>			
<b>Approved 2011 Budget &amp; Amended 2011 Budget</b>			
<b>Situation Awareness and Infrastructure Security</b>			
	Approved 2011 Budget	Amended 2011 Budget	Variance Amended 2011 Budget v Approved 2011 Budget Over(Under)
<b>Funding</b>			
<b>Texas RE Funding</b>			
Texas RE Assessments	\$ 430,571	\$ 430,571	\$ -
Penalty Sanctions	1,064	1,064	-
<b>Total Texas RE Funding</b>	<b>\$ 431,636</b>	<b>\$ 431,635</b>	<b>\$ -</b>
Membership Dues	1,464	1,464	-
Federal Grants	-	-	-
Services & Software	-	-	-
Workshops	-	-	-
Interest	-	-	-
Miscellaneous	-	-	-
<b>Total Funding</b>	<b>\$ 433,099</b>	<b>\$ 433,099</b>	<b>\$ -</b>
<b>Expenses</b>			
<b>Personnel Expenses</b>			
Salaries	\$ 209,656	\$ 209,656	\$ -
Payroll Taxes	18,651	18,651	-
Benefits	23,272	23,272	-
Retirement Costs	30,400	30,400	-
<b>Total Personnel Expenses</b>	<b>\$ 281,980</b>	<b>\$ 281,980</b>	<b>\$ -</b>
<b>Meeting Expenses</b>			
Meetings	\$ -	\$ -	\$ -
Travel	1,268	1,268	-
Conference Calls	-	-	-
<b>Total Meeting Expenses</b>	<b>\$ 1,268</b>	<b>\$ 1,268</b>	<b>\$ -</b>
<b>Operating Expenses</b>			
Consultants & Contracts	\$ -	\$ -	\$ -
Office Rent	-	-	-
Office Costs	-	-	-
Professional Services	-	-	-
Miscellaneous	-	-	-
Depreciation	-	-	-
<b>Total Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total Direct Expenses</b>	<b>\$ 283,248</b>	<b>\$ 283,248</b>	<b>\$ -</b>
<b>Indirect Expenses</b>	<b>\$ 158,598</b>	<b>\$ 153,017</b>	<b>\$ (5,581)</b>
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total Expenses</b>	<b>\$ 441,846</b>	<b>\$ 436,265</b>	<b>\$ (5,581)</b>
<b>Change in Assets</b>	<b>\$ (8,746)</b>	<b>\$ (3,165)</b>	<b>\$ 5,581</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	\$ 8,746	8,746	-
<b>Change in Fixed Assets</b>	<b>8,747</b>	<b>8,746</b>	<b>-</b>
<b>TOTAL CHANGE IN NET ASSETS</b>	<b>\$ 0</b>	<b>\$ 5,581</b>	<b>\$ 5,581</b>

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**Administrative Services**

<b>Administrative Services</b> (in whole dollars)			
	<b>Approved 2011 Budget</b>	<b>Amended 2011 Budget</b>	<b>Increase (Decrease)</b>
Total FTEs	10.86	10.86	-
Total Direct Expenses	\$ 3,057,898	\$ 3,066,298	\$ 8,400
Inc(Dec) in Fixed Assets	\$ (164,335)	\$ (164,335)	\$ -
Less: Other Funding Sources	\$ (600)	\$ (600)	\$ -
Total Allocation to Statutory Programs as Indirect Expenses	\$ (2,983,407)	\$ (2,991,807)	\$ (8,400)
Funding Requirement for Working Capital	\$ 127,459	\$ 127,459	\$ -

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

- Texas RE allocates its indirect expenses to the functional areas via a headcount allocation, both in the Approved 2011 Budget and the Amended 2011 Budget.
  - Each direct activity receives a pro-rata allocation of expense based on its FTEs compared to total FTEs.
- Fixed assets that benefit the entire corporation that are not specific to any one activity/function will be allocated based on headcount to all of the direct activities.
- Direct expenses are increasing by \$8,400 due to the increased telecom requirement for the hardware and software used to electronically access and store ERCOT system data (which was not contemplated in the Approved 2011 Budget).

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**Technical Committees and Member Forums**

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

**Program Scope, Description, Assumptions, Goals, and Key Deliverables**

The Texas RE Technical Committees and Member Forums Program scope, description, assumptions, goals, and key deliverables have not changed from the Approved Budget.

## Technical Committees and Member Forums

Funding sources and related expenses for the Technical Committees and Member Forums section of the Amended 2011 Budget are shown in the table below.

<b>Statement of Activities and Capital Expenditures</b>			
<b>Approved 2011 Budget &amp; Amended 2011 Budget</b>			
<b>Technical Committees and Member Forums</b>			
	Approved 2011 Budget	Amended 2011 Budget	Variance Amended 2011 Budget v Approved 2011 Budget Over(Under)
<b>Funding</b>			
<b>Texas RE Funding</b>			
Texas RE Assessments	\$ -	\$ -	\$ -
Penalty Sanctions		-	
<b>Total Texas RE Funding</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Membership Dues	-	-	-
Federal Grants	-	-	-
Services & Software	-	-	-
Workshops	-	-	-
Interest	-	-	-
Miscellaneous	-	-	-
<b>Total Funding</b>	<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>
<b>Meeting Expenses</b>			
Meetings	\$ -	\$ -	\$ -
Travel	-	-	-
Conference Calls	-	-	-
<b>Total Meeting Expenses</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Operating Expenses</b>			
Consultants & Contracts	\$ -	\$ -	\$ -
Office Rent	-	-	-
Office Costs	-	-	-
Professional Services	-	-	-
Miscellaneous	-	-	-
Depreciation	-	-	-
<b>Total Operating Expenses</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Total Direct Expenses</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Indirect Expenses</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Other Non-Operating Expenses</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Total Expenses</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Change in Assets</b>	<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>
Allocation of Fixed Assets	\$ -	-	
<b>Change in Fixed Assets</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTAL CHANGE IN NET ASSETS</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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**General and Administrative Services**

<b>General and Administrative</b>			
(in whole dollars)			
	<b>Approved 2011 Budget</b>	<b>Amended 2011 Budget</b>	<b>Increase (Decrease)</b>
Total FTEs	1.71	1.71	-
Direct Expenses	\$ 1,143,056	\$ 1,143,056	\$ -
Inc(Dec) in Fixed Assets	\$ (115,952)	\$ (115,952)	\$ -
Working Capital Requirement	\$ 127,459	\$ 127,459	\$ -

**Program Scope, Description, Assumptions, Goals, and Key Deliverables**

The Texas RE General and Administrative Program scope, description, assumptions, goals, and key deliverables have not changed from the Approved Budget.

## General and Administrative Services

Funding sources and related expenses for the General and Administrative Services section of the Amended 2011 Budget are shown in the table below.

<b>Statement of Activities and Capital Expenditures</b>			
<b>Approved 2011 Budget &amp; Amended 2011 Budget</b>			
<b>General and Administrative</b>			
	Approved 2011 Budget	Amended 2011 Budget	Variance Amended 2011 Budget v Approved 2011 Budget Over(Under)
<b>Funding</b>			
<b>Texas RE Funding</b>			
Texas RE Assessments	\$ 126,859	\$ 126,859	\$ -
Penalty Sanctions	-	-	-
<b>Total Texas RE Funding</b>	<u>\$ 126,859</u>	<u>\$ 126,859</u>	<u>\$ -</u>
Membership Dues	-	-	-
Federal Grants	-	-	-
Services & Software	-	-	-
Workshops	-	-	-
Interest	600	600	-
Miscellaneous	-	-	-
<b>Total Funding</b>	<u>\$ 127,459</u>	<u>\$ 127,459</u>	<u>\$ -</u>
<b>Expenses</b>			
<b>Personnel Expenses</b>			
Salaries	\$ 161,154	\$ 161,154	\$ -
Payroll Taxes	13,056	13,056	-
Benefits	24,663	24,663	-
Retirement Costs	21,311	21,311	-
<b>Total Personnel Expenses</b>	<u>\$ 220,184</u>	<u>\$ 220,184</u>	<u>\$ -</u>
<b>Meeting Expenses</b>			
Meetings	\$ 13,100	\$ 13,100	\$ -
Travel	44,094	44,094	-
Conference Calls	-	-	-
<b>Total Meeting Expenses</b>	<u>\$ 57,194</u>	<u>\$ 57,194</u>	<u>\$ -</u>
<b>Operating Expenses</b>			
Consultants & Contracts	\$ 780	\$ 780	\$ -
Office Rent	499,000	499,000	-
Office Costs	29,145	29,145	-
Professional Services	220,800	220,800	-
Miscellaneous	-	-	-
Depreciation	115,952	115,952	-
<b>Total Operating Expenses</b>	<u>\$ 865,677</u>	<u>\$ 865,677</u>	<u>\$ -</u>
<b>Total Direct Expenses</b>	<u>\$ 1,143,056</u>	<u>\$ 1,143,056</u>	<u>\$ -</u>
<b>Indirect Expenses</b>	<u>\$ (1,143,056)</u>	<u>\$ (1,143,056)</u>	<u>\$ -</u>
<b>Other Non-Operating Expenses</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Total Expenses</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Change in Assets</b>	<u>\$ 127,459</u>	<u>\$ 127,459</u>	<u>\$ -</u>
<b>Fixed Assets</b>			
Depreciation	(115,952)	(115,952)	-
Computer & Software CapEx	-	-	-
Furniture & Fixtures CapEx	-	-	-
Equipment CapEx	-	-	-
Leasehold Improvements	-	-	-
<b>(Incr)Dec in Fixed Assets</b>	<u>\$ 115,952</u>	<u>\$ 115,952</u>	<u>\$ -</u>
Allocation of Fixed Assets	\$ (115,952)	(115,952)	-
<b>Change in Fixed Assets</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTAL CHANGE IN NET ASSETS</b>	<u>\$ 127,459</u>	<u>\$ 127,459</u>	<u>\$ -</u>



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**Legal and Regulatory**

<b>Legal and Regulatory</b> (in whole dollars)			
	<b>Approved 2011 Budget</b>	<b>Amended 2011 Budget</b>	<b>Increase (Decrease)</b>
Total FTEs	3.02	3.02	-
Direct Expenses	\$ 398,705	\$ 398,705	\$ -
Inc(Dec) in Fixed Assets	\$ -	\$ -	\$ -
Working Capital Requirement	\$ -	\$ -	\$ -

**Program Scope, Description, Assumptions, Goals, and Key Deliverables**

The Texas RE Legal and Regulatory Program scope, description, assumptions, goals, and key deliverables have not changed from the Approved Budget.

## Legal and Regulatory

Funding sources and related expenses for the Legal and Regulatory section of the Amended 2011 Budget are shown in the table below.

<b>Statement of Activities and Capital Expenditures</b>			
<b>Approved 2011 Budget &amp; Amended 2011 Budget</b>			
<b>Legal and Regulatory</b>			
	Approved 2011 Budget	Amended 2011 Budget	Variance Amended 2011 Budget v Approved 2011 Budget Over(Under)
<b>Funding</b>			
<b>Texas RE Funding</b>			
Texas RE Assessments	\$ -	\$ -	\$ -
Penalty Sanctions	-	-	-
<b>Total Texas RE Funding</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Membership Dues	-	-	-
Federal Grants	-	-	-
Services & Software	-	-	-
Workshops	-	-	-
Interest	-	-	-
Miscellaneous	-	-	-
<b>Total Funding</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Expenses</b>			
<b>Personnel Expenses</b>			
Salaries	\$ 274,717	\$ 274,717	\$ -
Payroll Taxes	24,410	24,410	-
Benefits	31,154	31,154	-
Retirement Costs	39,834	39,834	-
<b>Total Personnel Expenses</b>	<u>\$ 370,114</u>	<u>\$ 370,114</u>	<u>\$ -</u>
<b>Meeting Expenses</b>			
Meetings	\$ -	\$ -	\$ -
Travel	6,551	6,551	-
Conference Calls	-	-	-
<b>Total Meeting Expenses</b>	<u>\$ 6,551</u>	<u>\$ 6,551</u>	<u>\$ -</u>
<b>Operating Expenses</b>			
Consultants & Contracts	\$ 1,800	\$ 1,800	\$ -
Office Rent	-	-	-
Office Costs	2,240	2,240	-
Professional Services	18,000	18,000	-
Miscellaneous	-	-	-
Depreciation	-	-	-
<b>Total Operating Expenses</b>	<u>\$ 22,040</u>	<u>\$ 22,040</u>	<u>\$ -</u>
<b>Total Direct Expenses</b>	<u>\$ 398,705</u>	<u>\$ 398,705</u>	<u>\$ -</u>
<b>Indirect Expenses</b>	<u>\$ (398,705)</u>	<u>\$ (398,705)</u>	<u>\$ -</u>
<b>Other Non-Operating Expenses</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Total Expenses</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Change in Assets</b>	<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>
Allocation of Fixed Assets	\$ -	-	-
<b>Change in Fixed Assets</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTAL CHANGE IN NET ASSETS</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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**Information Technology**

<b>Information Technology</b> (in whole dollars)			
	<b>Approved 2011 Budget</b>	<b>Amended 2011 Budget</b>	<b>Increase (Decrease)</b>
Total FTEs	2.60	2.60	-
Direct Expenses	\$ 1,033,157	\$ 1,041,557	\$ 8,400
Inc(Dec) in Fixed Assets	\$ (48,383)	\$ (48,383)	\$ -
Working Capital Requirement	\$ -	\$ -	\$ -

**Program Scope, Description, Assumptions, Goals, and Key Deliverables**

The Texas RE Information Technology Program scope, description, assumptions, goals, and key deliverables have not changed from the Approved Budget.

**Overview of Statutory Cost Impacts of Amendment to the 2011 Budget****Funding**

- No Change.

**Personnel Expenses**

- No Change.

**Meeting Expenses**

- No Change.

**Operating Expenses**

- Direct expenses are increasing by \$8,400 due to the increased telecom requirement for the hardware and software used to electronically access and store ERCOT system data (which was not contemplated in the Approved 2011 Budget).

## Information Technology

Funding sources and related expenses for the Information Technology section of the Amended 2011 Budget are shown in the table below.

<b>Statement of Activities and Capital Expenditures</b>			
<b>Approved 2011 Budget &amp; Amended 2011 Budget</b>			
<b>Information Technology</b>			
	Approved 2011 Budget	Amended 2011 Budget	Variance Amended 2011 Budget v Approved 2011 Budget Over(Under)
<b>Funding</b>			
<b>Texas RE Funding</b>			
Texas RE Assessments	\$ -	\$ -	\$ -
Penalty Sanctions	\$ -	-	-
<b>Total Texas RE Funding</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Membership Dues	-	-	-
Federal Grants	-	-	-
Services & Software	-	-	-
Workshops	-	-	-
Interest	-	-	-
Miscellaneous	-	-	-
<b>Total Funding</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Expenses</b>			
<b>Personnel Expenses</b>			
Salaries	\$ 267,102	\$ 267,102	\$ -
Payroll Taxes	23,733	23,733	-
Benefits	37,535	37,535	-
Retirement Costs	38,730	38,730	-
<b>Total Personnel Expenses</b>	<u>\$ 367,100</u>	<u>\$ 367,100</u>	<u>\$ -</u>
<b>Meeting Expenses</b>			
Meetings	\$ 2,000	\$ 2,000	\$ -
Travel	3,805	3,805	-
Conference Calls	12,000	12,000	-
<b>Total Meeting Expenses</b>	<u>\$ 17,805</u>	<u>\$ 17,805</u>	<u>\$ -</u>
<b>Operating Expenses</b>			
Consultants & Contracts	\$ 330,634	\$ 339,034	\$ 8,400
Office Rent	-	-	-
Office Costs	174,235	174,235	-
Professional Services	-	-	-
Miscellaneous	-	-	-
Depreciation	143,383	143,383	-
<b>Total Operating Expenses</b>	<u>\$ 648,252</u>	<u>\$ 656,652</u>	<u>\$ 8,400</u>
<b>Total Direct Expenses</b>	<u>\$ 1,033,157</u>	<u>\$ 1,041,557</u>	<u>\$ 8,400</u>
<b>Indirect Expenses</b>	<u>\$ (1,033,157)</u>	<u>\$ (1,041,557)</u>	<u>\$ (8,400)</u>
<b>Other Non-Operating Expenses</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Total Expenses</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 0</u>
<b>Change in Assets</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (0)</u>
<b>Fixed Assets</b>			
Depreciation	(143,383)	(143,383)	-
Computer & Software CapEx	95,000	95,000	-
Furniture & Fixtures CapEx	-	-	-
Equipment CapEx	-	-	-
Leasehold Improvements	-	-	-
<b>(Incr)Dec in Fixed Assets</b>	<u>\$ 48,383</u>	<u>\$ 48,383</u>	<u>\$ -</u>
Allocation of Fixed Assets	\$ (48,383)	(48,383)	\$ -
<b>Change in Fixed Assets</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTAL CHANGE IN NET ASSETS</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (0)</u>

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**Human Resources**

<b>Human Resources</b> (in whole dollars)			
	<b>Approved 2011 Budget</b>	<b>Amended 2011 Budget</b>	<b>Increase (Decrease)</b>
Total FTEs	1.03	1.03	-
Direct Expenses	\$ 9,123	\$ 9,123	\$ -
Inc(Dec) in Fixed Assets	\$ -	\$ -	\$ -
Working Capital Requirement	\$ -	\$ -	\$ -

**Program Scope, Description, Assumptions, Goals, and Key Deliverables**

The Texas RE Human Resources Program scope, description, assumptions, goals, and key deliverables have not changed from the Approved Budget.

## Human Resources

Funding sources and related expenses for the Human Resources section of the Amended 2011 Budget are shown in the table below.

<b>Statement of Activities and Capital Expenditures</b>			
<b>Approved 2011 Budget &amp; Amended 2011 Budget</b>			
<b>Human Resources</b>			
	Approved 2011 Budget	Amended 2011 Budget	Variance Amended 2011 Budget v Approved 2011 Budget Over(Under)
<b>Funding</b>			
<b>Texas RE Funding</b>			
Texas RE Assessments	\$ -	\$ -	\$ -
Penalty Sanctions	\$ -	-	-
<b>Total Texas RE Funding</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Membership Dues	-	-	-
Federal Grants	-	-	-
Services & Software	-	-	-
Workshops	-	-	-
Interest	-	-	-
Miscellaneous	-	-	-
<b>Total Funding</b>	<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>
<b>Meeting Expenses</b>			
Meetings	\$ -	\$ -	\$ -
Travel	1,363	1,363	-
Conference Calls	-	-	-
<b>Total Meeting Expenses</b>	<u>\$ 1,363</u>	<u>\$ 1,363</u>	<u>\$ -</u>
<b>Operating Expenses</b>			
Consultants & Contracts	\$ -	\$ -	\$ -
Office Rent	-	-	-
Office Costs	260	260	-
Professional Services	7,500	7,500	-
Miscellaneous	-	-	-
Depreciation	-	-	-
<b>Total Operating Expenses</b>	<u>\$ 7,760</u>	<u>\$ 7,760</u>	<u>\$ -</u>
<b>Total Direct Expenses</b>	<u>\$ 9,123</u>	<u>\$ 9,123</u>	<u>\$ -</u>
<b>Indirect Expenses</b>	<u>\$ (9,123)</u>	<u>\$ (9,123)</u>	<u>\$ -</u>
<b>Other Non-Operating Expenses</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Total Expenses</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Change in Assets</b>	<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>
Allocation of Fixed Assets	\$ -	-	-
<b>Change in Fixed Assets</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTAL CHANGE IN NET ASSETS</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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**Finance and Accounting**

<b>Finance and Accounting</b> (in whole dollars)			
	<b>Approved 2011 Budget</b>	<b>Amended 2011 Budget</b>	<b>Increase (Decrease)</b>
Total FTEs	2.00	2.00	-
Direct Expenses	\$ 473,858	\$ 473,858	\$ -
Inc(Dec) in Fixed Assets	\$ -	\$ -	\$ -
Working Capital Requirement	\$ -	\$ -	\$ -

**Program Scope, Description, Assumptions, Goals, and Key Deliverables**

The Texas RE Finance and Accounting Program scope, description, assumptions, goals, and key deliverables have not changed from the Approved Budget.

## Finance and Accounting

Funding sources and related expenses for the Finance and Accounting section of the Amended 2011 Budget are shown in the table below.

<b>Statement of Activities and Capital Expenditures</b>			
<b>Approved 2011 Budget &amp; Amended 2011 Budget</b>			
<b>Finance and Accounting</b>			
	Approved 2011 Budget	Amended 2011 Budget	Variance Amended 2011 Budget v Approved 2011 Budget Over(Under)
<b>Funding</b>			
<b>Texas RE Funding</b>			
Texas RE Assessments	\$ -	\$ -	\$ -
Penalty Sanctions	-	-	-
<b>Total Texas RE Funding</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Membership Dues	-	-	-
Federal Grants	-	-	-
Services & Software	-	-	-
Workshops	-	-	-
Interest	-	-	-
Miscellaneous	-	-	-
<b>Total Funding</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Expenses</b>			
<b>Personnel Expenses</b>			
Salaries	\$ 187,145	\$ 187,145	\$ -
Payroll Taxes	16,614	16,614	-
Benefits	20,938	20,938	-
Retirement Costs	27,136	27,136	-
<b>Total Personnel Expenses</b>	<b>\$ 251,833</b>	<b>\$ 251,833</b>	<b>\$ -</b>
<b>Meeting Expenses</b>			
Meetings	\$ -	\$ -	\$ -
Travel	1,619	1,619	-
Conference Calls	-	-	-
<b>Total Meeting Expenses</b>	<b>\$ 1,619</b>	<b>\$ 1,619</b>	<b>\$ -</b>
<b>Operating Expenses</b>			
Consultants & Contracts	\$ 8,000	\$ 8,000	\$ -
Office Rent	-	-	-
Office Costs	3,205	3,205	-
Professional Services	209,200	209,200	-
Miscellaneous	-	-	-
Depreciation	-	-	-
<b>Total Operating Expenses</b>	<b>\$ 220,405</b>	<b>\$ 220,405</b>	<b>\$ -</b>
<b>Total Direct Expenses</b>	<b>\$ 473,858</b>	<b>\$ 473,858</b>	<b>\$ -</b>
<b>Indirect Expenses</b>	<b>\$ (473,858)</b>	<b>\$ (473,858)</b>	<b>\$ -</b>
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Change in Assets</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>
Allocation of Fixed Assets	\$ -	-	-
<b>Change in Fixed Assets</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL CHANGE IN NET ASSETS</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>



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Section B – Supplemental Financial Information  
Amended 2011 Business Plan and Budget

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## Section B — Supplemental Financial Information Reserve Balance

Table B-1

Working Capital Reserve Analysis 2010-2011	
STATUTORY	
Beginning Working Capital Reserve (Deficit), December 31, 2009	1,736,988
Less: Penalty sanctions to be used as offset to 2011 assessments <sup>1</sup>	(20,000)
Plus: 2010 Texas RE Funding (from LSEs or designees)	9,144,340
Plus: 2010 Other funding sources	237,760
Less: 2010 Projected expenses & capital expenditures	(9,349,201)
Projected Working Capital Reserve (Deficit), December 31, 2010	1,749,887
Desired Working Capital Reserve, December 31, 2011	1,957,454
Less: Projected Working Capital Reserve, December 31, 2010	(1,749,887)
Increase(decrease) in assessments to achieve desired Working Capital Reserve	207,567
Amended 2011 Expenses and Capital Expenditures	9,283,856
Less: Penalty Sanctions <sup>2</sup>	(20,000)
Less: Other Funding Sources	(243,600)
Adjustment to achieve desired Working Capital Reserve	207,567
Amended 2011 Texas RE Assessment	9,227,823

<sup>1</sup> Represents collections on or prior to June 30, 2010.

<sup>2</sup> The Texas RE board approved a desired 75-day working capital reserve; however, the Board approved this minimal cash reserve increase to allow the 2011 assessment to remain unchanged. Any remaining cash reserve will be used to offset the 2012 funding requirement.

### Explanation of Changes in Reserve Policy

Texas RE has not changed its policy of maintaining an approximately 75-day cash reserve; however, Texas RE requests that the 2011 statutory assessment not be changed from the amount set forth in the Approved 2011 Budget, due to the small change (\$80,108) in the statutory Amended 2011 Budget, because this amount is immaterial (0.85%) to Texas RE's overall budget, load-serving entities have been previously notified of and planned for the assessments based upon the Approved 2011 Budget, NERC has already issued assessments for the first quarter, based upon the Approved 2011 Budget, and any unspent funds will be used to offset Texas RE's 2012 funding requirement. The Approved 2011 Budget reflected an increase in cash reserves of \$127,459 from 2010, and the Amended 2011 Budget reflects cash reserves increase from 2010 of \$207,567, which is an increase in working capital over the Approved 2011 Budget of \$80,108. This increase in cash reserves is required to maintain the previously approved assessment amount.

## Section B — Supplemental Financial Information Consultants &amp; Contracts

Table B-2

Consultants	Approved 2011 Budget	Amended 2011 Budget	Variance Amended 2011 Budget v Approved 2011 Budget	Variance %
<b>Consultants</b>				
Consultants	\$ 20,000	\$ 20,000	\$ -	0.00%
<b>Consultants Total</b>	\$ 20,000	\$ 20,000	\$ -	0%
Contracts	Approved 2011 Budget	Amended 2011 Budget	Variance Amended 2011 Budget v Approved 2011 Budget	Variance %
<b>Contracts</b>				
Corporate Support Allocation (MOU)	\$ -	\$ -	\$ -	
IT-Managed Service Fees	510,368	510,368	-	0.00%
IT Hosting Fees	67,223	75,623	8,400	12.50%
Contracts	2,580	2,580	-	0.00%
Maintenance for Accounting System	8,000	8,000	-	0.00%
<b>Contracts Total</b>	\$ 588,171	\$ 596,571	\$ 8,400	1%
<b>Total Consulting and Contracts</b>	\$ 608,171	\$ 616,571	\$ 8,400	1%

**Explanation of Changes in Consultants & Contracts**

Texas RE will have increased telecom expenses for the new hardware and software to electronically access ERCOT system data, which will increase the statutory IT Hosting Fees by \$8,400.

## Section B — Supplemental Financial Information Office Costs

Table B-3

Office Costs	Approved 2011 Budget	Amended 2011 Budget	Variance Amended 2011 Budget v Approved 2011 Budget	Variance %
Office Supplies	\$ 9,600	\$ 9,600	\$ -	0.00%
Computer Supplies & Maintenance	20,000	44,744	24,744	123.72%
Telephone/Cell Phones	36,240	36,240	-	0.00%
Postage	1,440	1,440	-	0.00%
Express Shipping	4,000	4,000	-	0.00%
Stationary Forms	2,350	2,350	-	0.00%
Reports - Graphics	1,000	1,000	-	0.00%
Internet Expense	105,655	105,655	-	0.00%
Subscriptions & Publications	1,240	1,240	-	0.00%
Equipment Repair/Srv. Contracts	37,420	37,420	-	0.00%
Bank Charges	600	600	-	0.00%
71500-Dues	4,950	4,950	-	0.00%
<b>Total Office Costs</b>	<b>\$ 224,495</b>	<b>\$ 249,239</b>	<b>\$ 24,744</b>	<b>11.02%</b>

**Explanation of Changes in Office Costs**

Texas RE will incur \$24,744 in additional maintenance costs for the new hardware and software to electronically access the ERCOT system data.

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## Section C – Non-Statutory Activities

### Amended 2011 Business Plan and Budget

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**2011 Non-Statutory Business Plan and Budget**

<b>Non-Statutory Activities</b> (in whole dollars)			
	<b>Approved 2011 Budget</b>	<b>Amended 2011 Budget</b>	<b>Increase (Decrease)</b>
Total FTEs	1.0	5.0	4.0
Direct Expenses	\$ 187,842	\$ 778,596	\$ 590,755
Indirect Expenses	\$ 78,127	\$ 191,379	\$ 113,252
Inc(Dec) in Fixed Assets	\$ -	\$ -	\$ -
Total Funding Requirement	\$ 265,969	\$ 969,975	\$ 704,006

**Non-Statutory Functional Scope**

Texas RE will continue to perform non-statutory activities in 2011. Texas RE will remain the Reliability Monitor and perform the audits, investigations, monthly metrics review, and other monitoring and reporting of market participants' compliance with the reliability-related ERCOT Protocols and Operating Guides (ERCOT Regional Rules) that it performed in 2010 and its predecessor Texas Regional Entity performed in previous years, under the direction of the Public Utility Commission of Texas (PUCT). Texas RE will also monitor the stakeholder Regional Rules creation and modification process and assist the PUCT with comments on proposed changes to rules that impact reliability. Texas RE will not perform any enforcement activities, but will provide testimony and technical support to the PUCT for its enforcement cases.

**Major 2011 Assumptions and Cost Impacts – Approved Budget to Amended Budget**

- Texas RE will be the Reliability Monitor and perform ERCOT Regional Rules compliance monitoring and reporting for the PUCT in 2011, similarly to its non-statutory activities in 2010.

**Funding Sources**

- Funding will be obtained through an extension of the current contract between Texas RE, the PUCT, and ERCOT. The Amended 2011 Budget reflects non-statutory contract funding of \$969,975, which ERCOT will pay under the contract from its PUCT-approved system administration fee. This is a \$704,006 increase from the Approved 2011 Budget to the Amended 2011 Budget.

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### Personnel Expenses

- Non-statutory personnel expenses are increasing due to the addition of 4 FTEs (from 1 FTE to 5 FTEs) for the non-statutory activities. Texas RE will hire four additional employees to perform non-statutory activities. One “FTE” will represent a composite comprised of time spent by administrative and management personnel who primarily perform statutory activities. The resulting increase is \$544,309 for salary and benefits.

### Meeting Expenses

- Travel is increasing \$12,222 from the Approved 2011 Budget to the Amended 2011 Budget. This is due to the continuation of audits to be performed as part of the non-statutory activities. It is expected that there will be approximately 15 audits requiring travel in 2011.

### Operating Expenses

- Contract costs are increasing \$8,400 from the Approved 2011 Budget to the Amended 2011 Budget primarily for the increased telecom and related costs required to enable the electronic access to ERCOT system data.
- Office Costs are increasing \$25,824 primarily related to the maintenance agreement for the IT systems that electronically access and store the ERCOT system data.

### Indirect Expenses

- The non-statutory allocation of indirect expenses is increasing primarily due to the increase in non-statutory headcount from 1 to 5 FTEs, which is a driver in the indirect allocation calculation. Also, there are added expenses associated with the new IT systems needed to electronically access and store the ERCOT system data. The indirect allocation includes 50% of the depreciation and maintenance associated with this system, because the system is required and will be used fairly equally for statutory and non-statutory activities.

### 2011 Non-Statutory Goals and Objectives

- Appropriately monitor and report to the PUCT regarding stakeholder compliance with the Regional Rules.
- Implement the 2011 Regional Rules audit plan per the posted schedule.
- Review and assess system disturbances for potential violations of ERCOT Regional Rules and report all findings to the PUCT.
- Provide technical expertise to the PUCT for the review and modification of ERCOT Regional Rules that impact reliability of the BPS and support the PUCT efforts to ensure adequate reliability metrics are developed for the new nodal market.
- Provide technical or testimony support as needed to the PUCT for its enforcement of ERCOT Regional Rules violations.

## Approved 2011 Non-Statutory Budget and Amended 2011 Non-Statutory Budget Comparisons

<b>Statement of Activities and Capital Expenditures</b>			
<b>Approved 2011 Budget &amp; Amended 2011 Budget</b>			
<b>NON-STATUTORY</b>			
	Approved 2011 Budget	Amended 2011 Budget	Variance Amended 2011 Budget v Approved 2011 Budget Over(Under)
<b>Funding</b>			
<b>Texas RE Funding</b>			
Texas RE Assessments	\$ -	\$ -	\$ -
Penalty Sanctions	-	-	-
<b>Total Texas RE Funding</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Membership Dues/Non-statutory			
Assessments	265,969	969,975	\$ 704,007
Federal Grants	-	-	-
Services & Software	-	-	-
Workshops	-	-	-
Interest	-	-	-
Miscellaneous	-	-	-
<b>Total Funding</b>	<u>\$ 265,969</u>	<u>\$ 969,975</u>	<u>\$ 704,007</u>
<b>Expenses</b>			
<b>Personnel Expenses</b>			
Salaries	\$ 112,913	\$ 507,913	\$ 395,000
Payroll Taxes	10,023	43,532	33,509
Benefits	12,533	71,058	58,525
Retirement Costs	16,372	73,647	57,275
<b>Total Personnel Expenses</b>	<u>\$ 151,842</u>	<u>\$ 696,150</u>	<u>\$ 544,309</u>
<b>Meeting Expenses</b>			
Meetings	\$ -	\$ -	\$ -
Travel	-	12,222	12,222
Conference Calls	-	-	-
<b>Total Meeting Expenses</b>	<u>\$ -</u>	<u>\$ 12,222</u>	<u>\$ 12,222</u>
<b>Operating Expenses</b>			
Consultants & Contracts	\$ -	\$ 8,400	\$ 8,400
Office Rent	-	-	-
Office Costs	-	25,824	25,824
Professional Services	36,000	36,000	-
Miscellaneous	-	-	-
Depreciation	-	-	-
<b>Total Operating Expenses</b>	<u>\$ 36,000</u>	<u>\$ 70,224</u>	<u>\$ 34,224</u>
<b>Total Direct Expenses</b>	<u>\$ 187,842</u>	<u>\$ 778,596</u>	<u>\$ 590,755</u>
<b>Indirect Expenses</b>	<u>\$ 78,127</u>	<u>\$ 191,379</u>	<u>\$ 113,251</u>
<b>Other Non-Operating Expenses</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Total Expenses</b>	<u>\$ 265,969</u>	<u>\$ 969,975</u>	<u>\$ 704,006</u>
<b>Change in Assets</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 0</u>
<b>Fixed Assets</b>			
Depreciation	-	-	-
Computer & Software CapEx	-	-	-
Furniture & Fixtures CapEx	-	-	-
Equipment CapEx	-	-	-
Leasehold Improvements	-	-	-
<b>(Incr)Dec in Fixed Assets</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Allocation of Fixed Assets	\$ -	-	-
<b>Change in Fixed Assets</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTAL CHANGE IN NET ASSETS</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 0</u>



## Personnel Analysis

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

Total FTE's by Program Area	Approved 2011 Budget	Amended Direct FTEs 2011 Budget	Amended Shared FTEs <sup>1</sup> 2011 Budget	Amended Total FTEs 2011 Budget	Variance from Approved 2011 Budget
<b>NON-STATUTORY</b>					
<b>Operational Programs</b>					
Protocol	0.75	4.00	0.40	4.40	3.65
<b>Total FTEs Operational Programs</b>	<b>0.75</b>	<b>4.00</b>	<b>0.40</b>	<b>4.40</b>	<b>3.65</b>
<b>Administrative Programs</b>					
G&A	0.25	0.00	0.60	0.60	0.35
<b>Total FTEs Administrative Programs</b>	<b>0.25</b>	<b>0.00</b>	<b>0.60</b>	<b>0.60</b>	<b>0.35</b>
<b>Total FTEs</b>	<b>1.00</b>	<b>4.00</b>	<b>1.00</b>	<b>5.00</b>	<b>4.00</b>

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

## Amended Reserve Analysis — 2010–2011

Working Capital Reserve Analysis 2010-2011	
NON-STATUTORY	
Beginning Working Capital Reserve (Deficit), December 31, 2009	0
Plus: 2010 Texas RE Funding (from LSEs or designees)	
Plus: 2010 Other funding sources	265,969
Less: 2010 Projected expenses & capital expenditures	(265,969)
<b>Projected Working Capital Reserve (Deficit), December 31, 2010</b>	<b>0</b>
<b>Desired Working Capital Reserve, December 31, 2011</b>	<sup>1</sup> 0
Less: Projected Working Capital Reserve, December 31, 2010	0
<b>Additional funding required to achieve desired Working Capital Reserve</b>	<b>0</b>
2011 Funding for Expenses and Capital Expenditures	969,975
Less: Other Funding Sources	(969,975)
Adjustment to achieve desired Working Capital Reserve	
<b>Amended 2011 Funding (reserve adjustment)</b>	<b>0</b>

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

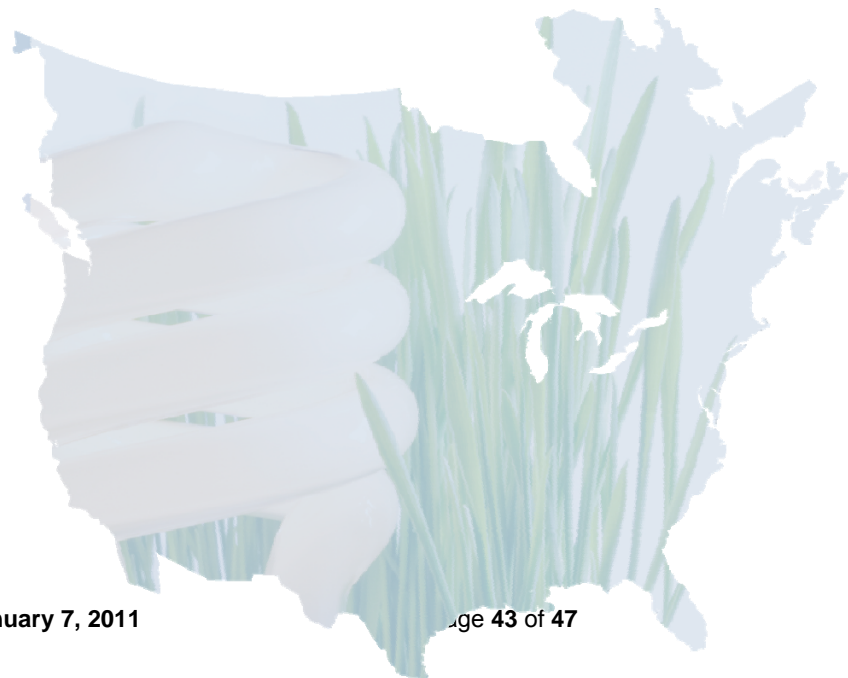
### Explanation of Changes in Reserve Policy

Texas RE has continued its policy of not maintaining a cash reserve for Non-statutory activities, due to the reliability and predictability of receipt of funding pursuant to its contract with the PUCT and ERCOT for the non-statutory activities.

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

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

Statement of Activities and Capital Assets with Amended 2011 Budget	Total	Statutory Total	Non-Statutory Total	Functions in Disposition Agreement								Non-Statutory Functions						
				Station Assessments and Reliability Standards (Section 300)	Compliance and Registration and Reliability Standards (402 & 503)	Reliability Assessment and Performance (Section 500)	Training and Education (990)	Station Awareness and Infrastructure (Section 1000)	Committee and Member Forums	General and Administrative	Legal and Regulatory		Information Technology	Human Resources	Accounting and Finance			
<b>Funding</b>																		
Texas RE Funding																		
Texas RE Assessments	9,227,823	9,227,823	-		485,484	7,055,792	725,572	343,544	430,571	-	-	-	-	-	-	-	-	-
Prerely Sanctions	25,000	25,000	-		8,033	15,270	1,668	865	1,054	-	-	-	-	-	-	-	-	-
Total Texas RE Funding	9,252,823	9,252,823	-		493,517	7,210,062	727,240	344,409	431,625	-	-	-	-	-	-	-	-	-
Non-Statutory Funding	969,975	-	969,975		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Membership Dues	27,500	27,500	-		1,420	20,996	2,293	1,327	1,464	-	-	-	-	-	-	-	-	-
Services & Software	215,500	215,500	-		-	-	-	215,500	-	-	-	-	-	-	-	-	-	-
Workshops	600	600	-		-	-	-	600	-	-	-	-	-	-	-	-	-	-
Interest	600	600	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Miscellaneous	600	600	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-Statutory Funding	969,975	-	969,975		-	-	-	215,500	-	-	-	-	-	-	-	-	-	-
Total Personnel Expenses	7,197,523	6,501,372	696,150		317,896	3,896,450	486,055	209,709	281,980	-	220,184	370,114	367,000	-	251,853	666,150		
Meeting Expenses																		
Meetings	234,300	234,300	-		3,700	3,700	-	-	215,600	-	-	-	2,000	-	-	-	-	-
Travel	334,975	322,753	12,222		9,987	245,078	8,685	301	1,288	-	44,094	6,651	3,695	1,363	1,619	-	-	12,222
Conference Calls	12,000	12,000	-		-	-	-	-	-	-	-	-	12,000	-	-	-	-	-
Total Meeting Expenses	581,275	569,053	12,222		13,687	245,078	8,685	215,801	1,288	-	57,194	6,951	17,695	1,363	1,619	-	-	12,222
Operating Expenses																		
Consultants & Contracts	624,971	616,571	8,400		10,000	266,957	-	-	-	-	780	1,800	339,034	-	8,000	-	-	8,400
Office Rent	499,000	499,000	-		-	-	-	-	-	-	499,000	-	-	-	-	-	-	-
Office Costs	275,963	249,239	25,824		930	39,224	-	-	-	-	291,145	-	174,335	280	3,205	-	-	25,824
Professional Services	786,000	750,000	36,000		-	284,500	-	-	-	-	220,800	18,000	-	7,500	209,200	-	-	36,000
Miscellaneous	532,418	532,418	-		532,418	-	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation	2,717,452	2,647,228	70,224		10,930	863,764	-	-	-	-	115,952	-	143,383	-	-	-	-	-
Total Operating Expenses	10,496,250	9,177,654	1,318,596		3,425,515	5,055,292	494,790	465,510	283,248	-	1,143,056	398,705	1,041,557	9,123	473,868	-	-	1,318,596
Indirect Expenses																		
Other Non-Operating Expenses																		
Total Expenses	10,496,250	9,556,274	869,975		3,436,440	5,055,292	494,790	465,510	283,248	-	1,143,056	398,705	1,041,557	9,123	473,868	-	-	1,318,596
Change in Assets																		
Fixed Assets																		
Repairs	(532,418)	(532,418)	-		-	(273,093)	-	-	-	-	(115,952)	-	(143,383)	-	-	-	-	-
Commodities & Software CapEx	290,000	290,000	-		10,000	165,800	-	-	-	-	-	-	85,000	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Equipment CapEx	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Leasehold Improvements	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-
(Inc)Dec in Fixed Assets	242,418	242,418	-		(10,000)	88,083	-	-	-	-	115,952	-	48,383	-	-	-	-	-
Allocation of Fixed Assets																		
Change in Fixed Assets	242,418	242,418	-		8,488	125,470	13,702	7,628	8,747	-	(115,952)	-	(48,383)	-	-	-	-	-
TOTAL CHANGE IN NET ASSETS	207,566	207,566	-		5,416	55,310	8,742	5,658	5,581	-	127,459	-	-	-	-	-	-	-
FTEs	54,000	49,000	5,000		1,97	26,12	3,18	1,84	2,03	0,50	1,71	3,02	2,60	1,03	2,00	-	-	5,000

**Amended Statement of Financial Position**

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

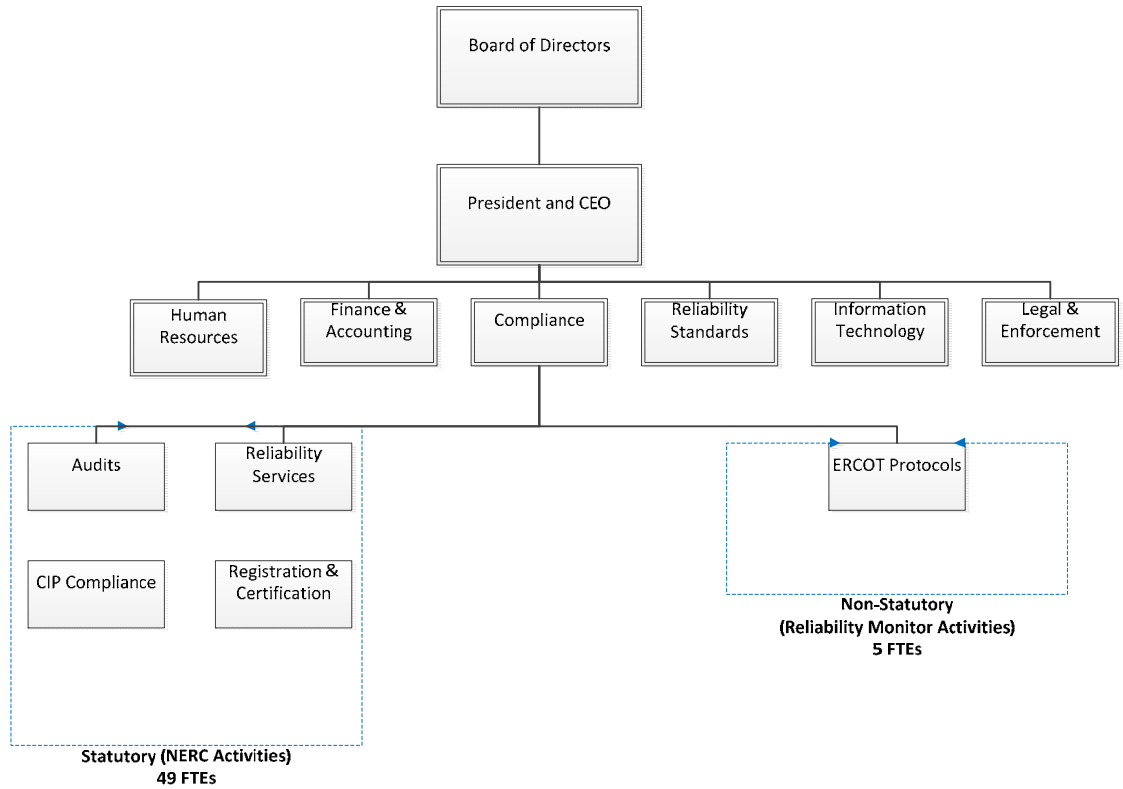
**Statement of Financial Position**  
**2009 Audited, 2010 Projection, and Amended 2011 Budget**

**STATUTORY and NON-STATUTORY**

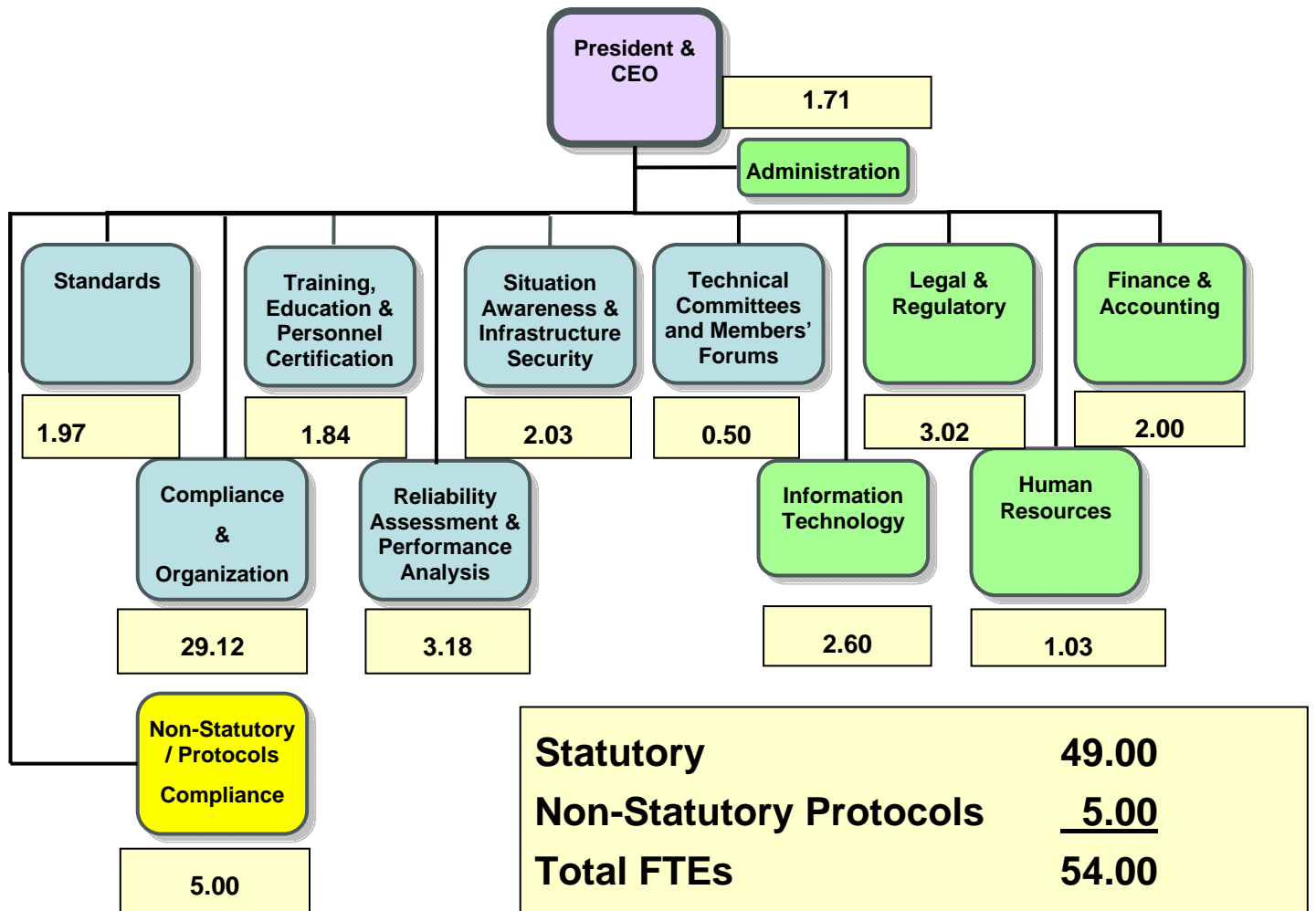
	(Per Audit) 31-Dec-09	Projected 31-Dec-10	Amended Budget 31-Dec-11
<b>ASSETS</b>			
Cash	2,551,152	2,126,627	2,321,295
Accounts receivable, net of allowance for uncollectible	1,756,745	-	
Other receivables	-		
Prepaid expenses and other current assets	-		
Security deposit	-	50,000	50,000
Cash value of insurance policies	-		
Property and equipment	536,424	1,463,839	1,221,421
Total Assets	<b>4,844,321</b>	<b>3,640,466</b>	<b>3,592,716</b>
<b>LIABILITIES AND NET ASSETS</b>			
Liabilities			
Accounts payable and accrued expenses	903,722	413,841	413,841
Deferred income	1,667,187	-	
Regional assessments collected in advance			
Regulatory Liability	1,736,122	-	
Accrued retirement liabilities			
Total Liabilities	<b>4,307,032</b>	<b>413,841</b>	<b>413,841</b>
Net Assets - unrestricted	537,289	3,226,625	3,178,875
Total Liabilities and Net Assets	<b>4,844,321</b>	<b>3,640,466</b>	<b>3,592,716</b>

Amended 2011 Texas RE Organization Chart (Statutory and Non-statutory)

2011 Organization Overview



Amended 2011 Texas RE Organization Chart – Statutory and Non-Statutory Functions



**ATTACHMENT 2**

**REVISED DELEGATION AGREEMENT BETWEEN  
NERC AND TEXAS RELIABILITY ENTITY  
WITH AMENDED EXHIBIT E**

**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 as of January 1, 2011, 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 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”), which, 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, which are set forth at Chapter I, Title 18, Code of Federal Regulations, Part 39 (the “ERO Regulations”);

**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 ERO Regulations provide for the delegation by the ERO of authority to propose and enforce Reliability Standards to regional entities (“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 ERO under the Act;

**WHEREAS**, NERC has concluded that Texas RE meets all requirements of the Act, the ERO Regulations, and the NERC Rules of Procedure as approved by the Commission (“NERC Rules of Procedure”) necessary to qualify for delegation; and

**WHEREAS**, NERC and Texas RE, having operated under a predecessor agreement to this Agreement, have negotiated this amended and restated Agreement so as to incorporate the benefits of their mutual experience and lessons learned while operating under the predecessor agreement and thereby provide for the more efficient and effective execution of their respective responsibilities in a transparent manner that is pursuant to Section 215 of the Act and the ERO Regulations;

**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 ERO Regulations, the NERC Rules of Procedure, or the NERC Glossary of Terms Used in Reliability Standards, or, if not so defined, shall be defined as set forth in this Section 1 or elsewhere in the text of this Agreement:

(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 and to undertake related activities set forth in this Agreement in furtherance of these delegated functions in accordance with the Act, the ERO Regulations and this Agreement.

**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 to 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 bylaws are attached hereto in **Exhibit B**<sup>1</sup>, 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<sup>2</sup>, 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 adopted the NERC Compliance Monitoring and Enforcement Program, Appendix 4C to the NERC Rules of Procedure, which provides for the enforcement of Reliability Standards within Texas RE's geographic boundaries as shown on **Exhibit A**.

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

(i) NERC is and shall remain during the term of this Agreement validly existing and in good standing pursuant to 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) NERC has been certified as the ERO by the Commission pursuant to the Act.

### **3. Covenants**

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<sup>1</sup> The **Exhibit B** from Texas RE shall meet the requirements contained in **Exhibit B** to this Agreement.

<sup>2</sup> The **Exhibit C** from Texas RE shall meet the requirements contained in **Exhibit C** to this Agreement.

(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 its Regional Entity 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 17 and 18 of this Agreement, NERC shall not adopt amendments to the NERC Rules of Procedure 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 compliance monitoring and 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 and such other scope set forth on **Exhibit A**, *provided*, that Texas RE shall not monitor and enforce compliance with Reliability Standards for Texas RE or an affiliated entity with respect to reliability functions for which Texas RE or an affiliate is a Registered Entity. Any exclusions from this delegation of authority to Texas RE within, or additions to this delegation of authority to Texas RE beyond, the geographic boundaries set forth on **Exhibit A** are stated on **Exhibit A**.

(b) In circumstances where Texas RE or an affiliated entity is a Registered Entity, Texas RE shall enter into an agreement with another Regional Entity or NERC for the other

Regional Entity or NERC to monitor and enforce Texas RE's or affiliate's compliance with Reliability Standards. Such agreements are subject to NERC and Commission approval.

(c) Nothing in this Agreement shall prohibit Texas RE from entering into an arrangement between one or more other Regional Entities to perform compliance monitoring and enforcement activities outside of its region, on behalf of NERC and/or other Regional Entities, for Registered Entities that have registered functions monitored by more than one Regional Entity, subject to approval by NERC.

(d) 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 ERO 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.

(e) As a condition to this delegation of authority and subject to the provisions of Section 17 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. Development and Proposal of 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 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 of Procedure 312.3 as it may be amended from time to time. The NERC Board shall promptly thereafter consider such proposed Regional Reliability Standard or Regional Variance,

applying the rebuttable presumption described in subsection 5(b) of this Agreement 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 Regional Reliability Standard or Regional Variance 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 Regional Entity organized on an Interconnection-wide basis 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 Interconnection-wide Regional Entity during NERC's review of the proposal.

## **6. Enforcement of Compliance with Reliability Standards.**

(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, or as otherwise specified, in **Exhibit A** through the compliance monitoring and enforcement program set forth in **Exhibit D**. NERC and Texas RE agree that this compliance monitoring and enforcement program meets all applicable requirements of the Act, Order No. 672 of the Commission, and the ERO Regulations, including, *inter alia*, the requirement for an audit program pursuant to Section 39.7(a) of the ERO Regulations, the assessment of penalties pursuant to Section 39.7(c) through 39.7(g) of the ERO Regulations and the requirements for due process. Texas RE may not change its compliance monitoring and enforcement program set forth in **Exhibit D** absent NERC's approval, which shall not be unreasonably withheld or delayed, and the approval of the Commission. Subject to the rights and limitations specified in Sections 17 and 18 of this Agreement, Texas RE agrees to comply with the NERC Rules of Procedure, with any directives issued pursuant to Section 8(c) of this Agreement, and with any guidance and directions issued

by the NERC Board or a Board committee pursuant to Section 8(d) of this Agreement, in implementing this program.

(b) Texas RE shall report promptly to NERC any Possible Violation, Alleged Violation, or Confirmed Violation of a Reliability Standard, and its eventual disposition by Texas RE. Such report shall include the owner's, operator's, or user's name, which Reliability Standard or Reliability Standards were the subject of the Possible Violation, Alleged Violation, or Confirmed Violation, when the Possible Violation, Alleged Violation, or Confirmed Violation occurred, other pertinent facts including circumstances surrounding the Possible Violation, Alleged Violation, or Confirmed Violation with any known risk to the Bulk-Power System, when the Possible Violation, Alleged Violation, or Confirmed Violation was or will be mitigated, the name of a person knowledgeable about the Possible Violation, Alleged Violation, or Confirmed 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 Possible Violations, Alleged Violations, and Confirmed Violations of Reliability Standards and summary analyses of such Possible Violations, Alleged Violations, and Confirmed Violations.

(c) Each Possible Violation, Alleged Violation, or Confirmed Violation shall be treated as nonpublic unless the matter is filed with the Commission as a Notice of Penalty, or, if disclosure is required, dismissed. The disposition of each Possible Violation, Alleged Violation, or Confirmed Violation that relates to a Cybersecurity Incident or that would jeopardize the security of the Bulk-Power System if publicly disclosed shall remain nonpublic unless the Commission directs otherwise.

(d) All dispositions by Texas RE of Possible Violations, Alleged Violations, and Confirmed Violations of Reliability Standards shall be reported to NERC for review and, in the case of Confirmed Violations, penalties or sanctions, and settlements, for approval. Following approval of a disposition by NERC, NERC shall file the disposition with the Commission, if required by, and in accordance with, Section 215(e) of the Act and Section 39.7 of the ERO Regulations. NERC shall review Texas RE's dispositions based on the following criteria:

(i) whether the disposition is supported by a sufficient record compiled by Texas RE in accordance with the NERC Rules of Procedure, NERC directives and



Commission requirements, taking into account the nature of the Possible Violation, Alleged Violation, or Confirmed Violation,

(ii) whether the disposition is consistent with any applicable directives issued pursuant to Section 8(c) of this Agreement, any applicable directions or guidance issued by the NERC Board or a Board committee pursuant to Section 8(d) of this Agreement, or other applicable NERC guidance, concerning the Reliability Standards to which the Possible Violation, Alleged Violation, or Confirmed Violation relates,

(iii) if the disposition is a Confirmed Violation or settlement, whether it provides for a penalty or sanction, or a determination of no penalty or sanction, determined in accordance with the NERC Sanction Guidelines, Appendix 4B to the NERC Rules of Procedure, and

(iv) whether the disposition is reasonably consistent with other dispositions by Texas RE and by other Regional Entities of Possible Violations, Alleged Violations, and Confirmed Violations involving the same or similar facts and circumstances.

NERC may reject any disposition, with an explanation of why NERC believes the disposition does not meet the above criteria. Texas RE may submit a disposition requiring NERC approval that has been rejected by NERC, or a revised disposition following a rejection, directly to the NERC Board Compliance Committee for approval without revising the disposition to address all the grounds on which NERC originally rejected the disposition. The final approval of Texas RE's disposition of a Possible Violation, Alleged Violation, or Confirmed Violation shall be made by the NERC Board Compliance Committee, provided, that the NERC Board or NERC Board Compliance Committee may, by appropriate resolution, delegate authority for final approval of dispositions of specified categories of Possible Violations, Alleged Violations, or Confirmed Violations to the NERC President.

(e) All appeals of penalties imposed by Texas RE as a result of a decision by Texas RE's Hearing Body shall be filed with, heard by and disposed of by, NERC in accordance with the NERC Rules of Procedure.

(f) Texas RE shall maintain the capability to conduct investigations of Possible Violations and Alleged Violations of Reliability Standards and to conduct such investigations in a confidential manner.

(g) Texas RE shall maintain a program of proactive monitoring and enforcement of compliance with Reliability Standards, in accordance with the NERC Compliance Monitoring and Enforcement Program and the annual NERC Compliance Monitoring and Enforcement Program Implementation Plan.

(h) As part of its compliance monitoring and enforcement program, Texas RE shall maintain a conflict of interest policy that assures the integrity and independence of such program, including the integrity and independence of the persons or decision-making bodies making final determinations in compliance enforcement actions under Section 5.0 of the NERC Compliance Monitoring and Enforcement Program. A Regional Entity may have stakeholders lead or participate in its board compliance committee so long as integrity and independence are assured through reasonable and appropriate recusal procedures.

(i) As often as NERC deems necessary, but no less than every five years, NERC shall review Texas RE's compliance monitoring and enforcement program to determine 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 for violations of Reliability Standards constituting comparable levels of threat to reliability of the Bulk-Power System.

## **7. Delegation-Related Activities.**

NERC will engage Texas RE on its behalf to carry out certain of its activities that are in furtherance of Bulk-Power System reliability and NERC's responsibilities as the ERO under the Act or in support of the Delegated Authority, as specified in the NERC Rules of Procedure and listed on **Exhibit E**. These delegation-related activities shall include, but are not limited to, those described in subsections (a) through (f), each of which shall be considered a statutory activity:

**(a) Certification of Bulk-Power System Entities.** The NERC Board shall set criteria for certification in accordance with the NERC Rules of Procedure. Texas RE shall issue certifications in accordance with the NERC Rules of Procedure.

**(b) Registration of owners, operators, and users of the Bulk-Power System as responsible for compliance with requirements of Reliability Standards.**

(i) The NERC Board shall develop criteria for registration of owners, operators, and users of the Bulk-Power System as Registered Entities and shall apply the registration criteria to register owners, operators and users of the Bulk-Power System as Registered Entities.

(ii) NERC shall maintain a registration database of Registered Entities, based on data and information provided by Texas RE and other Regional Entities. Texas RE shall provide timely and accurate information relating to registrations to NERC, on at least a monthly basis, to enable NERC to maintain a registration database that is accurate and up-to-date.

(iii) The NERC Board Compliance Committee shall hear and decide appeals from owners, operators and users of the Bulk-Power System contesting registration, in accordance with the NERC Rules of Procedure. If the NERC Board Compliance Committee upholds the decision to register an owner, operator, or user, NERC shall defend the decision in any subsequent appeal of the decision by the Registered Entity to the Commission.

**(c) Reliability Assessment and Performance Analysis.** Texas RE shall develop assessments of the reliability of the Bulk-Power System, or ensure that data and information are collected, analyzed and provided to NERC in support of the development of reliability assessments, in accordance with the NERC Rules of Procedure. Texas RE shall also develop and maintain, and collect data in support of the development and maintenance of, reliability performance metrics and assessments of risks to the Reliable Operation of the Bulk-Power System, in accordance with the NERC Rules of Procedure and NERC directives. NERC shall develop data-gathering quality control procedures, forms and reporting mechanisms, which shall be used by Texas RE and other Regional Entities in carrying out their responsibilities under this subsection (c).

**(d) Event Analysis and Reliability Improvement.** Texas RE shall conduct event analysis pursuant to the NERC Rules of Procedure and applicable governmental regulations. NERC and Texas RE shall coordinate event analysis to support the effective and efficient use of their collective resources, consistency in event analysis, and timely delivery of event analysis reports. In collaboration with NERC, Texas RE shall disseminate to the electric industry lessons learned and other information obtained or resulting from event analysis.

**(e) Training and Education.** Texas RE may provide training and education to Registered Entities, as it deems necessary, in support of its performance of delegated functions and related activities under this Agreement. NERC may also provide training and education programs to Registered Entities on topics relating to NERC's responsibilities as the ERO.

**(f) Situation Awareness and Infrastructure Security.**

(i) Texas RE shall gather and assess situation awareness information provided by Registered Entities pursuant to the NERC Rules of Procedure and applicable governmental regulations, and shall provide other data, information and assistance to NERC in support of NERC's activities in monitoring present conditions, and responding to events, on the Bulk-Power System

(ii) Texas RE shall collaborate with NERC in its efforts to coordinate electric industry activities to promote critical infrastructure protection of the Bulk-Power System in North America.

**8. Oversight of Performance of Delegated Functions and Related Activities.**

This Section 8 sets forth processes and procedures which the Parties intend shall be used in NERC's oversight of Texas RE's performance of its Delegated Authority and related activities pursuant to this Agreement. It is the intent of NERC and Texas RE that matters relating to NERC's oversight of Texas RE's performance of its Delegated Authority and related activities shall be established or resolved by collaboration between NERC and Texas RE and, where applicable, other Regional Entities, to the maximum extent possible, consistent with the construct that NERC and the Regional Entities are operating together in a collaborative manner to carry out the responsibilities of the ERO under Section 215 of the Act and the ERO Regulations.

(a) (i) NERC shall develop, in collaboration with Texas RE and other Regional Entities, performance goals, measures and other parameters (including, without limiting the scope of such goals, measures and parameters, financial performance goals, measures and parameters), and performance reports, which shall be used to measure NERC's and Texas RE's performance of their respective functions and related activities. The performance goals, measures and parameters and the form of performance reports shall be approved by the NERC President and shall be made public. Texas RE shall provide data, information and reports to

NERC, in accordance with established schedules, to enable NERC to calculate Texas RE's performance to the agreed-upon goals, measures and parameters.

(ii) NERC shall use the performance goals, measures and parameters and performance reports to evaluate Texas RE's performance of its delegated functions and related activities and to provide advice and direction to Texas RE on performance improvements. The performance goals, measures and other parameters and the values of such goals, measures and parameters, shall be reviewed by NERC, Texas RE and the other Regional Entities, revised if appropriate, and made public, on the same timeline as the annual business planning and budgeting process described in Section 9 of this Agreement.

(iii) At the request of the President of NERC, Texas RE shall be required to develop, submit for NERC approval, and implement action plans to address areas of its performance that are reasonably determined by NERC, based on analysis of Texas RE's performance against the performance goals, measures and parameters, or performance of specific activities, to be unsatisfactory, *provided*, that prior to requiring Texas RE to adopt and implement an action plan or other remedial action, NERC shall issue a notice to Texas RE of the need and basis for an action plan or other remedial action and provide an opportunity for Texas RE to submit a written response contesting NERC's evaluation of Texas RE's performance and the need for an action plan. Texas RE may request that the President of NERC reconsider the request, and thereafter may request that the NERC Board review and reconsider the request. NERC and Texas RE shall work collaboratively as needed in the development and implementation of Texas RE's action plan. A final action plan submitted by Texas RE to NERC shall be made public unless the President of NERC makes a written determination that the action plan or specific portions of the plan should be maintained as non-public.

(b) NERC shall make available to Texas RE standardized training and education programs, which shall be designed taking into account input from Texas RE and other Regional Entities, for Texas RE personnel on topics relating to the delegated functions and related activities.

(c) (i) NERC may issue directives to Texas RE concerning the manner in which Texas RE shall perform its delegated functions and related activities under this Agreement. The NERC Rules of Procedure, or any other ERO Rule requiring approval of the Commission, shall not be considered "directives." NERC shall initiate the development of a directive through a

collaborative process with Texas RE and, if applicable, other Regional Entities to which the directive will apply. Any directive developed through the collaborative process shall be approved by, and issued under the signature of, the NERC President.

(ii) If after a period of time that is reasonable under the circumstances, NERC and Texas RE and, if applicable, other Regional Entities are unable to reach agreement on the contents of the directive, NERC may issue the directive with the approval of and under the signature of the NERC President; *provided*, that before the NERC President issues a directive pursuant to this paragraph (ii), Texas RE and, if applicable, other Regional Entities, shall be given a reasonable opportunity to present their positions on, and a suggested alternative version or versions of, the proposed directive to the NERC President.

(iii) Upon issuance of a directive by the NERC President, it shall be binding upon, and shall be complied with by, Texas RE, subject to reasonable time periods for adoption, implementation, and funding of any necessary resources. Upon request by Texas RE, the NERC Board (or a committee of the Board to which the Board delegates appropriate authority) shall review and shall confirm, revise or revoke any directive that was issued by the NERC President without Texas RE's agreement, *provided*, that Texas RE shall request such review within thirty (30) days following issuance of the directive by the NERC President unless good cause can be shown for a later request.

(iv) NERC and Texas RE and, if applicable, other Regional Entities, shall collaborate in deciding whether a directive (whether issued pursuant to paragraph (ii) or paragraph (iii)) shall be made public. If no agreement is reached by the date of issuance as to whether the directive shall be made public, the NERC President shall decide whether the directive will be made public, *provided*, that is the intent of the Parties that the NERC President shall apply a presumption that directives should be made public, unless the NERC President makes a written determination stating a specific reason for maintaining a particular directive as non-public.

(d) In addition to the issuance of directives pursuant to subsection (c), the NERC Board (or a Board committee to which the Board has delegated authority) may issue guidance or directions as to the manner in which Texas RE, and, if applicable, other Regional Entities, shall perform delegated functions and related activities. The Board or Board committee shall also establish reasonable time periods for the implementation of any such guidance or directions,

taking into account the impact on the reliability of the Bulk-Power System and the need for funding of additional resources. Any such guidance or directions shall be stated in writing and shall be public, unless the Board or Board committee makes a written determination stating a specific reason for maintaining particular guidance or directions as non-public. Texas RE, either individually or in conjunction with other Regional Entities, may request that the NERC Board or Board committee reconsider or revise the guidance or direction.

(e) NERC shall conduct collaborative reviews with Texas RE, either individually or in conjunction with one or more other Regional Entities, that provide for the exchange of information on practices, experiences, and lessons learned in the implementation of the delegated functions.

(f) Any audits of Texas RE performed by NERC shall be limited to an examination of Texas RE's compliance with this Agreement, NERC's Rules of Procedure, the Compliance Monitoring and Enforcement Program, Commission requirements, and directives that are in effect pursuant to Section 8(c)

**9. Funding.** Texas RE and NERC shall ensure, subject to Commission approval in accordance with the ERO Regulations, that the delegated functions and related activities described in Sections 5, 6 and 7 and listed on **Exhibit E** have reasonable and adequate funding and resources by undertaking the following:

(a) Texas RE shall develop, through a collaborative process with NERC, and propose, an annual business plan and budget, in accordance with ERO Regulations, Commission orders and NERC business planning and budgeting policies and instructions. Texas RE's proposed business plan and budget shall describe the activities necessary for, and provide a budget with adequate resources for, Texas RE to carry out its Delegated Authority under this Agreement, including the functions and activities described in Sections 5, 6 and 7 and listed on **Exhibit E**. Texas RE's business plan and budget shall show the funding sources and amounts to fund the proposed budget, including as applicable assessments to end users, penalty monies, and other sources of funds.

(b) Texas RE and NERC agree that the portion of Texas RE's approved budget for the functions and activities described in Sections 5, 6 and 7 and listed on **Exhibit E** that is to be funded by assessments, 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 by May 15 for approval, 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 the ERO Regulations for such year.

(c) NERC shall determine that the assessments to fund the costs for its statutory functions in its Commission-approved budget 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 or forms for business plan and budget submittal, and any accompanying instructions, in accordance with the schedule for preparation of the business plan and budget developed by NERC and the Regional Entities.

(e) Texas RE shall submit its proposed annual business plan and budget for carrying out its Delegated Authority functions and related activities described in Sections 5, 6 and 7 and listed on Exhibit E, as well as for all other activities of Texas RE, to NERC for review and approval in accordance with the annual schedule for the preparation of business plans and budgets which shall be developed collaboratively by NERC and the Regional Entities, as more fully described in **Exhibit E**.

(f) NERC shall fund Texas RE's performance of its Delegated Authority and related activities in accordance with Texas RE's Commission-approved business plan and budget, in the amount of Texas RE's assessments to end users approved by the Commission. **Exhibit E** sets forth the procedures and timing for billing and collecting Texas RE's approved assessments from end users and other entities and payment of the approved assessment amount to Texas RE, unless otherwise modified and approved by NERC and the Commission. NERC shall not impose any material obligation or requirement regarding the Delegated Authority upon Texas



RE that has not been provided for in an approved business plan and budget or an approved amended or supplemental business plan and budget, without Texas RE's consent.

(g) 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 and Texas RE fiscal year budget with the actual results at the NERC and Regional Entity levels. Texas RE shall follow NERC's prescribed system of accounts except to the extent that NERC permits a departure from the 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.

(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 May 1 of the following year.

(j) **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 of Texas RE) 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. *Provided*, that, subject to approval by NERC and the Commission, Texas RE may propose and implement an alternative use of penalty monies to that set forth in **Exhibit E**.

**10. 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 without NERC's express consent; 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.

**11. 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 Section 11, 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 18 of this Agreement to resolve a dispute as to whether a Breach has occurred or been cured. The provisions of this Section 11 will survive termination of this Agreement.

**12. Term and Termination.**

(a) This Agreement shall become effective on January 1, 2011 (the “Effective Date”).

(b) The term of the Agreement shall be five (5) years from the Effective Date, prior to which time NERC shall conduct an audit pursuant to subsection 6(i) to ensure that 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. This Agreement may be renewed for successive additional five (5) year renewal terms provided that prior to the end of each renewal term, NERC shall conduct an audit pursuant to subsection 6(i) to ensure that Texas RE continues to meet all applicable statutory and regulatory requirements necessary to maintain its eligibility for

delegation. Provided, that either Party may terminate this Agreement as of the end of a term by giving written notice to terminate at least one (1) year prior to the end of the term. If this Agreement is not renewed or becomes subject to termination for any reason, the Parties shall work to provide for a transition of Texas RE's Delegated Authority to NERC or to another eligible entity and to provide for the resolution of any wind-up costs associated with termination of this Agreement. 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 13), No Third Party Beneficiaries (Section 14) and Confidentiality (Section 15) shall survive this Agreement in accordance with their terms until sixty (60) days following the expiration of any applicable statute of limitations.

**13. 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.

**14. 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.

**15. 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.

**16. 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.

**17. Amendments to the NERC Rules of Procedure**. NERC shall not adopt amendments to the NERC Rules of Procedure 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 18 and, if such effort fails to resolve the dispute, to petition the Commission to adopt the amendment to the NERC Rules of Procedure. 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.

**18. Dispute Resolution**. In the event a dispute arises under this Agreement between NERC and Texas RE (including disputes relating to NERC's performance of its obligations under this Agreement and/or disputes relating to Texas RE's performance of its obligations under this Agreement) which cannot be resolved through discussions between representatives of the Parties in the normal course of operations, the Parties shall use the following procedures ("Dispute Resolution") to attempt to resolve the dispute. Texas RE shall not suspend performance of any delegated function, and the Parties shall continue to make reasonable, good faith efforts to comply with their obligations under this Agreement, during the pendency of Dispute Resolution. All notices required to be sent pursuant to this Dispute Resolution procedure shall be sent in accordance with Section 19 of this Agreement. This Dispute Resolution procedure is separate from and in addition to all other processes provided for in this Agreement.

(a) The Party invoking Dispute Resolution shall send a notice to the other Party describing the dispute, stating the invoking Party's position with respect to the dispute, stating that the Party is invoking Dispute Resolution, and naming the Party's designated representative for negotiating a resolution of the dispute. The designated representative shall have authority to resolve the dispute on behalf of the invoking Party.

(b) Within three (3) business days after receipt of the notice invoking Dispute Resolution, the receiving Party shall send a notice to the invoking Party acknowledging receipt of the notice invoking Dispute Resolution, stating the receiving Party's position with respect to the dispute, and naming the Party's designated representative for negotiating a resolution of the dispute. The designated representative shall have authority to resolve the dispute on behalf of the receiving Party.

(c) During the period commencing three (3) business days and ending twenty (20) business days after the date of the receiving Party's notice, the designated representatives shall engage in good faith negotiations to attempt to resolve the dispute, *provided*, that the designated representatives may agree prior to the end of such twenty (20) business day period that the process should move to the next step of Dispute Resolution.

(d) If the designated representatives are unable to arrive at a resolution of the dispute by the end of the time period described in subsection (c), they shall notify the chief executive officers of their respective Parties. The chief executive officers of the Parties shall thereafter engage in good faith negotiations to attempt to resolve the dispute during the period of twenty (20) business days immediately following the time period described in subsection (c), *provided*, that the chief executive officers may agree prior to the end of such twenty (20) business day period that negotiations are at impasse and the process may move to the next step as described in subsection (f). Upon mutual agreement of the Parties, the twenty (20) business day period may be extended to pursue ongoing good faith negotiations.

(e) If a resolution of the dispute is achieved by the Parties, it shall be memorialized in a writing that is acceptable in form and substance to each party and is signed by the designated representative or chief executive officer on behalf of each Party.

(f) If the Parties are unable to resolve the dispute pursuant to the process described in subsections (a) through (e), then either Party may invoke any other available dispute resolution mechanism, including, without limitation, filing a complaint or petition with the Commission

requesting resolution of the dispute by the Commission, or filing a complaint for relief in a court having jurisdiction over Parties and the subject matter of the dispute in accordance with Section 20. *Provided, however,* that: (i) it is the intent of the Parties that unresolved disputes shall be presented to and resolved by the Commission if the Commission has and accepts jurisdiction over the subject matter of the dispute, (ii) the Parties may, by mutual agreement, attempt to resolve the dispute through arbitration, mediation, or other process involving resort to an impartial neutral, and (iii) it is the intent of the Parties that resolution of disputes through Commission proceedings, arbitration, mediation, or other use of an impartial neutral, is preferred over resort to judicial proceedings.

(g) This Section 18 shall not apply to compliance enforcement actions against individual Registered Entities.

**19. 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: General Counsel  
Facsimile: (609) 452-9550

If to Texas RE:

Texas Reliability Entity, Inc.  
2700 Via Fortuna  
Suite 225  
Austin, Texas 78746  
Attn: General Counsel  
Facsimile:(512) 225-7165

**20. 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.

**21. 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.

**22. 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 maintain reliability of the Bulk-Power System within the geographic boundaries described in **Exhibit A** that are outside the Delegated Authority, 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**.

**23. 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 Effective Date.

NORTH AMERICAN  
ELECTRIC RELIABILITY CORPORATION

TEXAS RELIABILITY ENTITY, INC.

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

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

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

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

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

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

Date: \_\_\_\_\_

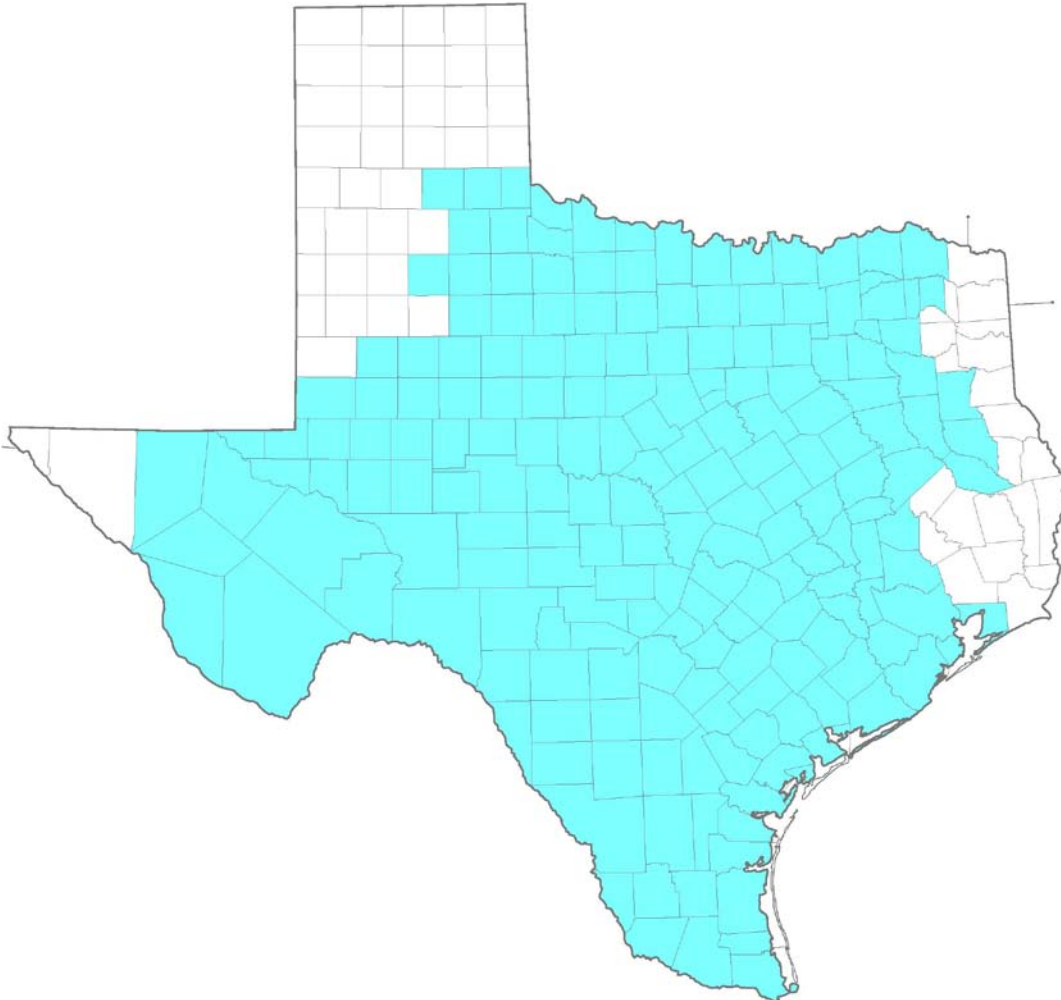
Date: \_\_\_\_\_

## **Exhibit A — Regional Boundaries**

**Exhibit A** to the delegation agreement for each Regional Entity receiving Delegated Authority shall describe the geographic or electrical boundaries covered by the proposed delegation of authority. **Exhibit A** for each Regional Entity shall reflect coordination with neighboring Regional Entities, as appropriate, to ensure that all relevant areas are either included within the geographic boundaries of a Regional Entity or specifically identified as not being within the geographic boundaries of any Regional Entity. Any exclusions of geographic or electrical areas or of Registered Entities from the scope of the Regional Entity's Delegated Authority within the geographic or electrical boundaries shown on **Exhibit A**, and any additions of geographic or electrical areas or of Registered Entities located outside the boundaries shown on **Exhibit A** to the scope of the Regional Entity's Delegated Authority, shall be specifically stated or described in **Exhibit A**.

## **EXHIBIT A – REGIONAL BOUNDARIES**

The ERCOT Region 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 indicated on the map below.



## Exhibit B – Governance

Exhibit B shall set forth the Regional Entity’s bylaws, which NERC agrees demonstrate 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)

Approved by Membership – February 5, 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 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 and 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**

**Reliability Standards Committee (RSC)** — The Texas RE 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 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 committee.

### **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 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></ul>
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	<ul style="list-style-type: none"><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.

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, and 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:

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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 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

<p><b>Purpose</b> (Describe the purpose of the proposed regional reliability standard – what the standard will achieve in support of reliability.)</p>
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<p><b>Industry Need</b> (Provide a detailed statement justifying the need for the proposed regional reliability standard, along with any supporting documentation.)</p>
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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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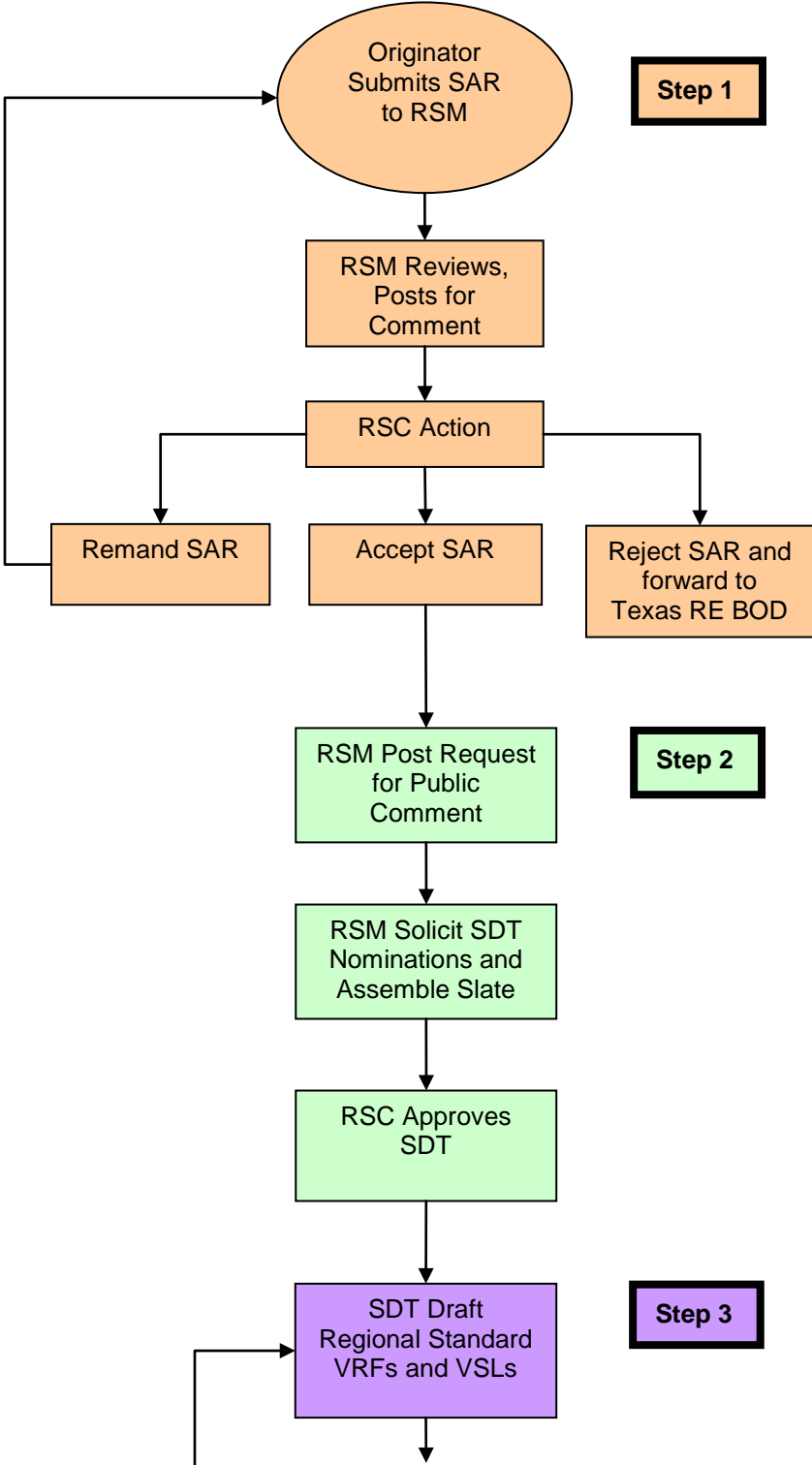
**Related Standards**

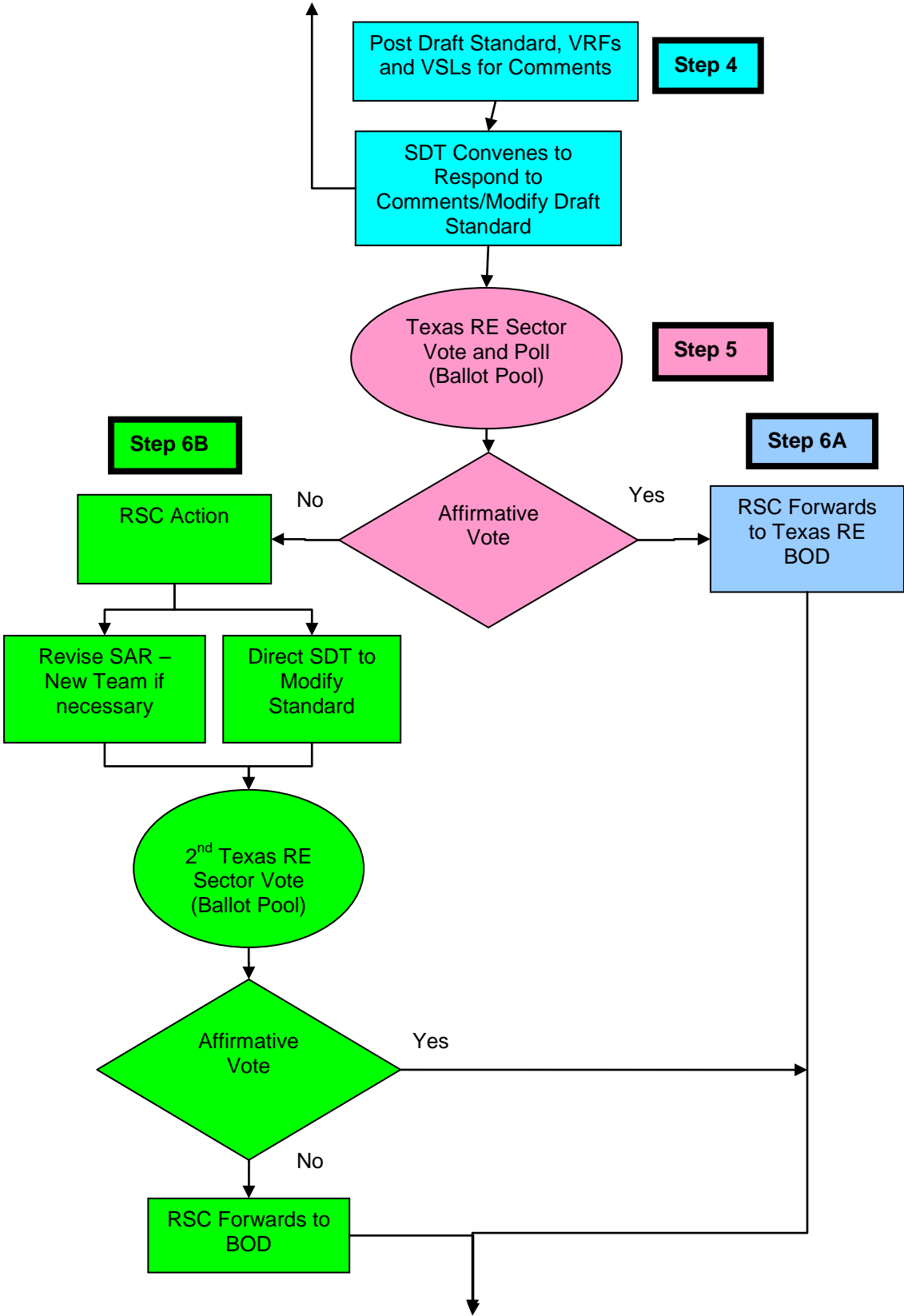
Standard No.	Explanation

**Related SARs**

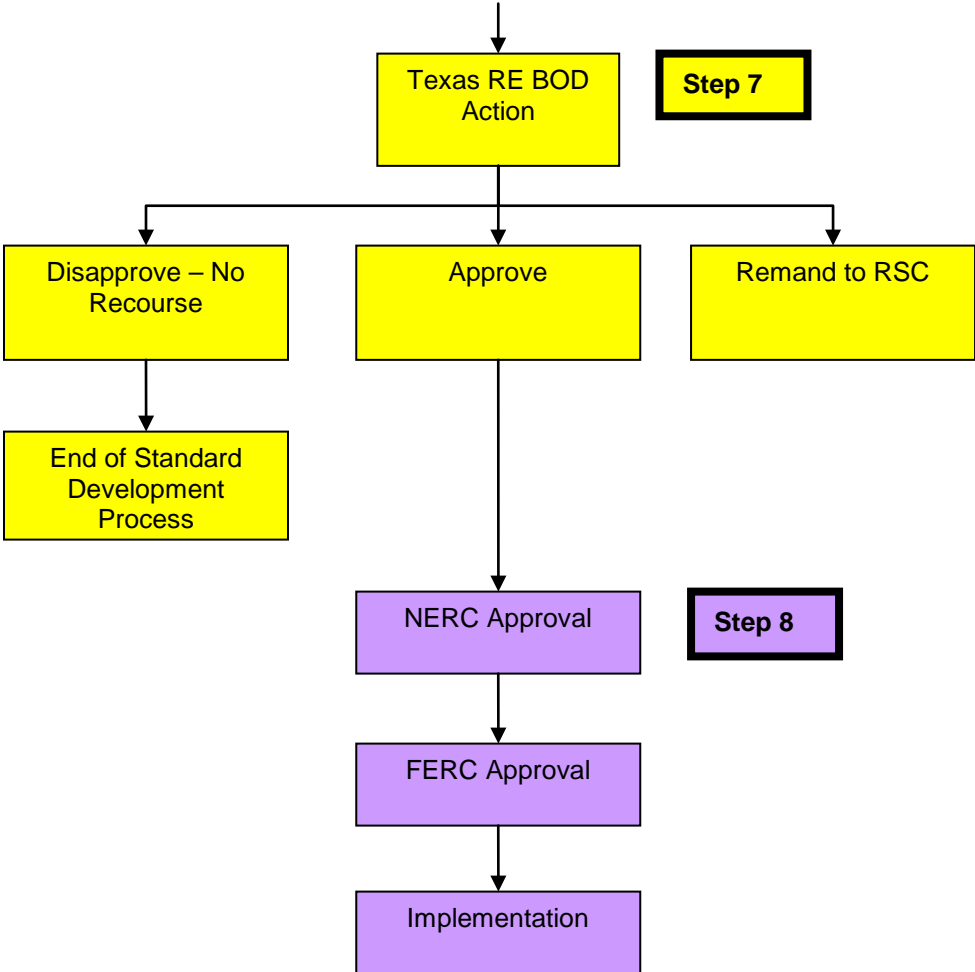
SAR ID	Explanation

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









## **EXHIBIT D – COMPLIANCE MONITORING AND ENFORCEMENT PROGRAM**

### **1.0 REGIONAL COMPLIANCE MONITORING AND ENFORCEMENT PROGRAM**

**Texas RE** will implement the NERC Compliance Monitoring and Enforcement Program, Appendix 4C to the NERC Rules of Procedure (which for purposes of this section 1.0 shall not include Attachment 2, Hearing Procedures), to monitor and enforce compliance with Reliability Standards by the owners, operators, and users within **Texas RE's** geographic or electrical boundaries, and such other scope, set forth on **Exhibit A** of this Agreement.

### **2.0 REGIONAL HEARING OF COMPLIANCE MATTERS**

**Texas RE** shall establish and maintain a hearing body with authority to conduct and render decisions in compliance hearings in which a Registered Entity may contest a finding of alleged violation, proposed penalty or sanction, or a proposed mitigation plan, which shall be either **Texas RE's** board or a balanced compliance panel reporting directly to **Texas RE's** board. **Texas RE's** hearing body is the Public Utility Commission of Texas (PUCT).

- A. **Hearing Body.** Texas RE will use the 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 is comprised of three Commissioners who are appointed by the Governor of the State of Texas. 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>3</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

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<sup>3</sup> Order 672, ¶511.

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

- D. 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.

Texas RE shall conduct all compliance hearings in which a Registered Entity may contest a finding of alleged violation, proposed penalty or sanction, proposed Mitigation Plan, or a proposed Remedial Action Directive, in accordance with Attachment 2, Hearing Procedures, to the NERC Compliance Monitoring and Enforcement Program, subject to the following deviations, if any:

**Detailed Hearing Procedures.** The details of the Texas RE 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."

### **3.0 OTHER DECISION-MAKING BODIES**

Texas RE uses only its board as its decision-making body.

## **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.

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“(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 RE shall include in its annual budget submission to NERC amounts for costs it will incur in performing its delegated functions and related activities as described in Sections 5, 6 and 7 of the Agreement. These activities shall include:

- Reliability Standard Development
- Compliance Monitoring and Enforcement
- Organization Registration and Certification
- Reliability Assessment and Performance Analysis (including necessary data gathering activities)
- Event Analysis and Reliability Improvement
- Training and Education
- Situation Awareness
- Infrastructure Security

### 2. Preparation of Annual Business Plan and Budget

(a) NERC and Texas RE, in conjunction with the other Regional Entities, shall collaboratively develop an annual schedule for the development, submission, review and approval of Texas RE's business plan and budget. The annual schedule for the preparation of business plans and budgets shall require Texas RE (i) to submit to NERC draft(s) of Texas RE's proposed business plan and budget and other preliminary documents and information, and (ii) to submit a final proposed business plan and budget that has been approved by Texas RE Board of Directors to NERC by July 1 or such other agreed date as provides sufficient time for NERC's review, approval and submission of Texas RE's business plan and budget to the Commission 130 days in advance of the beginning of each fiscal year. The Texas RE business plan and budget submission shall include supporting materials, including Texas RE's complete business plan and organization chart, explaining the proposed collection of all assessments, dues, fees and charges, and the proposed expenditure of the funds to be collected in sufficient detail to justify the requested budgeted expenditures and assessments. Texas RE's business plan and budget and proposed assessments shall provide for reasonable reserve mechanisms for unforeseen and extraordinary expenses and other contingencies, consistent with generally accepted accounting principles.

(b) NERC shall review and approve Texas RE's proposed business plan and budget and proposed assessments for performing the delegated functions and related activities described in Sections 5, 6 and 7 of this Agreement and listed above in Section 1 of this **Exhibit E**, or shall direct Texas RE to make such revisions as NERC deems appropriate prior to approval. NERC shall submit Texas RE's approved business plan and budget and proposed assessments to the Commission for approval as part of NERC's overall business plan and budget submission, in accordance with the ERO Regulations.

### 3. Allocation of Costs

Assessments to fund the costs of Texas RE's delegated functions and related activities pursuant to the Agreement shall be allocated among all load-serving entities on the basis of Net Energy for Load, unless a different method(s) of allocating and calculating such assessments has been submitted to and approved by NERC and the Commission in accordance with Section 9(b) of the Agreement. Texas RE shall submit to NERC annually at the same time it submits its budget request a list of the load-serving entities or designees within its geographic boundaries that shall be responsible for paying Texas RE's assessment and the load-serving entities' proportionate Net Energy for Load, and such other data and information as is necessary to allocate and calculate the allocation of Texas RE's assessment to the load-serving entities or designees under the method(s) of allocation and calculation that will be used. NERC and Texas RE agree that for purposes of Section 3 and 4 of this Exhibit E, Electric Reliability Council of Texas (ERCOT ISO), as the sole independent system operator and Balancing Authority, is the only load-serving entity or designee in Texas RE's region and shall be invoiced for the entire NERC and Texas RE assessments approved for collection.

#### 4. Collection of Funding

(a) NERC shall submit invoices to the load-serving entities or designees identified by Texas RE covering the NERC and Texas RE assessments approved for collection.

(b) NERC shall pursue any non-payments of assessment amounts and shall request assistance from ERO Governmental Authorities as necessary to secure collection. To the extent reasonably practicable, Texas RE shall assist NERC in pursuing and collecting any non-payments. Notwithstanding the foregoing, Texas RE is not responsible and does not assume any liability for recovering non-payments or underpayments of assessment amounts. NERC shall retain sole responsibility for recovering non-payments or underpayments of assessment amounts. NERC shall add the amount of any non-payments by end-users or designees within Texas RE's region, that are reasonably determined to be uncollectible, to NERC's assessments for a subsequent year with the amount of such non-payments to be allocated to end-users within Texas RE's region.

(c) Upon approval by ERO Governmental Authorities of Texas RE's annual assessment to fund the costs of its delegated functions and related activities, NERC shall pay Texas RE's annual assessment to Regional Entity in four equal quarterly payments on January 15, April 15, July 15 and October 15 of the budget year.

#### 5. Application of Penalties

Except as otherwise approved by the Commission, 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 Texas RE'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. Except as otherwise approved by the Commission, 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.

#### 6. Budget and Funding for Texas RE's Non-Statutory Activities

In addition to its delegated functions and related activities, as specified in Sections 5, 6 and 7 of the Agreement and in Section 1 of this **Exhibit E** (such delegated functions and activities referred to in this Section 6 as "statutory activities"), Texas RE performs the following other functions and activities (such other functions and activities being referred to in this Section 6 as "non-statutory activities"):

Texas RE will audit and investigate market participants' compliance with ERCOT Protocols and Operating Guides (ERCOT regional rules), as the ERCOT region Reliability Monitor, through a continuation of its contract with the Public Utility Commission of Texas (the "PUC", which directs the work) and ERCOT (the independent system operator, which makes the required contractual payment from its system administration fee), for at least an additional three-year period ending December 31, 2013. Under this contract, Texas RE will continue to report possible non-compliance with reliability-related regional rules to the PUC and will respond to subpoenas and provide testimony and support to the PUC regarding contested enforcement cases prosecuted by the PUC. These non-statutory activities are subject to continuation at the end of the contract term by mutual agreement by Texas RE and the PUC. If the decision is made to terminate or not renew this contract in the future, Texas RE would perform reduced non-statutory activities for a period of time, under a modified contract, to transition these activities to a third party.

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 it incurs in the performance of its non-statutory functions separately from the costs 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 proposed annual business plan and budget for statutory activities to NERC pursuant to Section 9 of the Agreement. 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 and a description of the funding sources for the non-statutory activities. Texas RE agrees that no costs (which shall include a reasonable allocation of Texas RE's general and administrative costs) of non-statutory activities are to be included in the calculation of Texas RE's assessments, dues, fees, and other charges for its statutory activities.

#### 7. Amended or Supplemental Business Plans and Budgets

During the course of the fiscal year, if Texas RE determines it does not or will not have sufficient funds to carry out its delegated functions and related activities, Texas RE shall submit to NERC one or more proposed amended or supplemental business plans and budgets and requests for approval of supplemental assessments, reflecting costs, cost increases or funding shortfalls not provided for in Texas RE's approved business plan and budget for the fiscal year. NERC shall review and approve the proposed amended or supplemental business plan and budget and proposed supplemental assessment, or shall direct Texas RE to make such revisions as NERC deems appropriate prior to approval. NERC shall submit Texas RE's approved amended or supplemental business plan and budget and proposed supplemental assessment to the Commission for approval.

#### 8. NERC Review of Regional Entity Financial Statements

NERC shall conduct reviews of the quarterly and annual financial statements submitted by Texas RE pursuant to Section 9(h) and (i) of the Agreement. Texas RE shall provide supporting documentation for the quarterly and annual financial statements as reasonably requested by NERC based on its reviews.

**ATTACHMENT 3**

**REVISED DELEGATION AGREEMENT BETWEEN  
NERC AND TEXAS RELIABILITY ENTITY  
WITH AMENDED EXHIBIT E**

**REDLINED VERSION**

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

AMENDED AND RESTATED DELEGATION AGREEMENT (“Agreement”) made as of January 1, 2011, 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 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”), which, 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, which are set forth at Chapter I, Title 18, Code of Federal Regulations, Part 39 (the “ERO Regulations”);

**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 ERO Regulations provide for the delegation by the ERO of authority to propose and enforce Reliability Standards to regional entities (“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 ERO under the Act;

**WHEREAS**, NERC has concluded that Texas RE meets all requirements of the Act, the ERO Regulations, and the NERC Rules of Procedure as approved by the Commission (“NERC Rules of Procedure”) necessary to qualify for delegation; and

**WHEREAS**, NERC and Texas RE, having operated under a predecessor agreement to this Agreement, have negotiated this amended and restated Agreement so as to incorporate the benefits of their mutual experience and lessons learned while operating under the predecessor agreement and thereby provide for the more efficient and effective execution of their respective responsibilities in a transparent manner that is pursuant to Section 215 of the Act and the ERO Regulations;

**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 ERO Regulations, the NERC Rules of Procedure, or the NERC Glossary of Terms Used in Reliability Standards, or, if not so defined, shall be defined as set forth in this Section 1 or elsewhere in the text of this Agreement:

(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 and to undertake related activities set forth in this Agreement in furtherance of these delegated functions in accordance with the Act, the ERO Regulations and this Agreement.

**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 to 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 bylaws are attached hereto in **Exhibit B**<sup>1</sup>, 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<sup>2</sup>, 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 adopted the NERC Compliance Monitoring and Enforcement Program, Appendix 4C to the NERC Rules of Procedure, which provides for the enforcement of Reliability Standards within Texas RE's geographic boundaries as shown on **Exhibit A**.

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

(i) NERC is and shall remain during the term of this Agreement validly existing and in good standing pursuant to 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) NERC has been certified as the ERO by the Commission pursuant to the Act.

### **3. Covenants**

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<sup>1</sup> The **Exhibit B** from Texas RE shall meet the requirements contained in **Exhibit B** to this Agreement.

<sup>2</sup> The **Exhibit C** from Texas RE shall meet the requirements contained in **Exhibit C** to this Agreement.

(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 its Regional Entity 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 17 and 18 of this Agreement, NERC shall not adopt amendments to the NERC Rules of Procedure 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 compliance monitoring and 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 and such other scope set forth on **Exhibit A**, *provided*, that Texas RE shall not monitor and enforce compliance with Reliability Standards for Texas RE or an affiliated entity with respect to reliability functions for which Texas RE or an affiliate is a Registered Entity. Any exclusions from this delegation of authority to Texas RE within, or additions to this delegation of authority to Texas RE beyond, the geographic boundaries set forth on **Exhibit A** are stated on **Exhibit A**.

(b) In circumstances where Texas RE or an affiliated entity is a Registered Entity, Texas RE shall enter into an agreement with another Regional Entity or NERC for the other

Regional Entity or NERC to monitor and enforce Texas RE's or affiliate's compliance with Reliability Standards. Such agreements are subject to NERC and Commission approval.

(c) Nothing in this Agreement shall prohibit Texas RE from entering into an arrangement between one or more other Regional Entities to perform compliance monitoring and enforcement activities outside of its region, on behalf of NERC and/or other Regional Entities, for Registered Entities that have registered functions monitored by more than one Regional Entity, subject to approval by NERC.

(d) 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 ERO 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.

(e) As a condition to this delegation of authority and subject to the provisions of Section 17 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. Development and Proposal of 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 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 of Procedure 312.3 as it may be amended from time to time. The NERC Board shall promptly thereafter consider such proposed Regional Reliability Standard or Regional Variance,

applying the rebuttable presumption described in subsection 5(b) of this Agreement 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 Regional Reliability Standard or Regional Variance 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 Regional Entity organized on an Interconnection-wide basis 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 Interconnection-wide Regional Entity during NERC's review of the proposal.

## **6. Enforcement of Compliance with Reliability Standards.**

(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, or as otherwise specified, in **Exhibit A** through the compliance monitoring and enforcement program set forth in **Exhibit D**. NERC and Texas RE agree that this compliance monitoring and enforcement program meets all applicable requirements of the Act, Order No. 672 of the Commission, and the ERO Regulations, including, *inter alia*, the requirement for an audit program pursuant to Section 39.7(a) of the ERO Regulations, the assessment of penalties pursuant to Section 39.7(c) through 39.7(g) of the ERO Regulations and the requirements for due process. Texas RE may not change its compliance monitoring and enforcement program set forth in **Exhibit D** absent NERC's approval, which shall not be unreasonably withheld or delayed, and the approval of the Commission. Subject to the rights and limitations specified in Sections 17 and 18 of this Agreement, Texas RE agrees to comply with the NERC Rules of Procedure, with any directives issued pursuant to Section 8(c) of this Agreement, and with any guidance and directions issued

by the NERC Board or a Board committee pursuant to Section 8(d) of this Agreement, in implementing this program.

(b) Texas RE shall report promptly to NERC any Possible Violation, Alleged Violation, or Confirmed Violation of a Reliability Standard, and its eventual disposition by Texas RE. Such report shall include the owner's, operator's, or user's name, which Reliability Standard or Reliability Standards were the subject of the Possible Violation, Alleged Violation, or Confirmed Violation, when the Possible Violation, Alleged Violation, or Confirmed Violation occurred, other pertinent facts including circumstances surrounding the Possible Violation, Alleged Violation, or Confirmed Violation with any known risk to the Bulk-Power System, when the Possible Violation, Alleged Violation, or Confirmed Violation was or will be mitigated, the name of a person knowledgeable about the Possible Violation, Alleged Violation, or Confirmed 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 Possible Violations, Alleged Violations, and Confirmed Violations of Reliability Standards and summary analyses of such Possible Violations, Alleged Violations, and Confirmed Violations.

(c) Each Possible Violation, Alleged Violation, or Confirmed Violation shall be treated as nonpublic unless the matter is filed with the Commission as a Notice of Penalty, or, if disclosure is required, dismissed. The disposition of each Possible Violation, Alleged Violation, or Confirmed Violation that relates to a Cybersecurity Incident or that would jeopardize the security of the Bulk-Power System if publicly disclosed shall remain nonpublic unless the Commission directs otherwise.

(d) All dispositions by Texas RE of Possible Violations, Alleged Violations, and Confirmed Violations of Reliability Standards shall be reported to NERC for review and, in the case of Confirmed Violations, penalties or sanctions, and settlements, for approval. Following approval of a disposition by NERC, NERC shall file the disposition with the Commission, if required by, and in accordance with, Section 215(e) of the Act and Section 39.7 of the ERO Regulations. NERC shall review Texas RE's dispositions based on the following criteria:

(i) whether the disposition is supported by a sufficient record compiled by Texas RE in accordance with the NERC Rules of Procedure, NERC directives and

Commission requirements, taking into account the nature of the Possible Violation, Alleged Violation, or Confirmed Violation,

(ii) whether the disposition is consistent with any applicable directives issued pursuant to Section 8(c) of this Agreement, any applicable directions or guidance issued by the NERC Board or a Board committee pursuant to Section 8(d) of this Agreement, or other applicable NERC guidance, concerning the Reliability Standards to which the Possible Violation, Alleged Violation, or Confirmed Violation relates,

(iii) if the disposition is a Confirmed Violation or settlement, whether it provides for a penalty or sanction, or a determination of no penalty or sanction, determined in accordance with the NERC Sanction Guidelines, Appendix 4B to the NERC Rules of Procedure, and

(iv) whether the disposition is reasonably consistent with other dispositions by Texas RE and by other Regional Entities of Possible Violations, Alleged Violations, and Confirmed Violations involving the same or similar facts and circumstances.

NERC may reject any disposition, with an explanation of why NERC believes the disposition does not meet the above criteria. Texas RE may submit a disposition requiring NERC approval that has been rejected by NERC, or a revised disposition following a rejection, directly to the NERC Board Compliance Committee for approval without revising the disposition to address all the grounds on which NERC originally rejected the disposition. The final approval of Texas RE's disposition of a Possible Violation, Alleged Violation, or Confirmed Violation shall be made by the NERC Board Compliance Committee, provided, that the NERC Board or NERC Board Compliance Committee may, by appropriate resolution, delegate authority for final approval of dispositions of specified categories of Possible Violations, Alleged Violations, or Confirmed Violations to the NERC President.

(e) All appeals of penalties imposed by Texas RE as a result of a decision by Texas RE's Hearing Body shall be filed with, heard by and disposed of by, NERC in accordance with the NERC Rules of Procedure.

(f) Texas RE shall maintain the capability to conduct investigations of Possible Violations and Alleged Violations of Reliability Standards and to conduct such investigations in a confidential manner.



(g) Texas RE shall maintain a program of proactive monitoring and enforcement of compliance with Reliability Standards, in accordance with the NERC Compliance Monitoring and Enforcement Program and the annual NERC Compliance Monitoring and Enforcement Program Implementation Plan.

(h) As part of its compliance monitoring and enforcement program, Texas RE shall maintain a conflict of interest policy that assures the integrity and independence of such program, including the integrity and independence of the persons or decision-making bodies making final determinations in compliance enforcement actions under Section 5.0 of the NERC Compliance Monitoring and Enforcement Program. A Regional Entity may have stakeholders lead or participate in its board compliance committee so long as integrity and independence are assured through reasonable and appropriate recusal procedures.

(i) As often as NERC deems necessary, but no less than every five years, NERC shall review Texas RE's compliance monitoring and enforcement program to determine 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 for violations of Reliability Standards constituting comparable levels of threat to reliability of the Bulk-Power System.

## **7. Delegation-Related Activities.**

NERC will engage Texas RE on its behalf to carry out certain of its activities that are in furtherance of Bulk-Power System reliability and NERC's responsibilities as the ERO under the Act or in support of the Delegated Authority, as specified in the NERC Rules of Procedure and listed on **Exhibit E**. These delegation-related activities shall include, but are not limited to, those described in subsections (a) through (f), each of which shall be considered a statutory activity:

**(a) Certification of Bulk-Power System Entities.** The NERC Board shall set criteria for certification in accordance with the NERC Rules of Procedure. Texas RE shall issue certifications in accordance with the NERC Rules of Procedure.

**(b) Registration of owners, operators, and users of the Bulk-Power System as responsible for compliance with requirements of Reliability Standards.**

(i) The NERC Board shall develop criteria for registration of owners, operators, and users of the Bulk-Power System as Registered Entities and shall apply the registration criteria to register owners, operators and users of the Bulk-Power System as Registered Entities.

(ii) NERC shall maintain a registration database of Registered Entities, based on data and information provided by Texas RE and other Regional Entities. Texas RE shall provide timely and accurate information relating to registrations to NERC, on at least a monthly basis, to enable NERC to maintain a registration database that is accurate and up-to-date.

(iii) The NERC Board Compliance Committee shall hear and decide appeals from owners, operators and users of the Bulk-Power System contesting registration, in accordance with the NERC Rules of Procedure. If the NERC Board Compliance Committee upholds the decision to register an owner, operator, or user, NERC shall defend the decision in any subsequent appeal of the decision by the Registered Entity to the Commission.

**(c) Reliability Assessment and Performance Analysis.** Texas RE shall develop assessments of the reliability of the Bulk-Power System, or ensure that data and information are collected, analyzed and provided to NERC in support of the development of reliability assessments, in accordance with the NERC Rules of Procedure. Texas RE shall also develop and maintain, and collect data in support of the development and maintenance of, reliability performance metrics and assessments of risks to the Reliable Operation of the Bulk-Power System, in accordance with the NERC Rules of Procedure and NERC directives. NERC shall develop data-gathering quality control procedures, forms and reporting mechanisms, which shall be used by Texas RE and other Regional Entities in carrying out their responsibilities under this subsection (c).

**(d) Event Analysis and Reliability Improvement.** Texas RE shall conduct event analysis pursuant to the NERC Rules of Procedure and applicable governmental regulations. NERC and Texas RE shall coordinate event analysis to support the effective and efficient use of their collective resources, consistency in event analysis, and timely delivery of event analysis reports. In collaboration with NERC, Texas RE shall disseminate to the electric industry lessons learned and other information obtained or resulting from event analysis.

**(e) Training and Education.** Texas RE may provide training and education to Registered Entities, as it deems necessary, in support of its performance of delegated functions and related activities under this Agreement. NERC may also provide training and education programs to Registered Entities on topics relating to NERC's responsibilities as the ERO.

**(f) Situation Awareness and Infrastructure Security.**

(i) Texas RE shall gather and assess situation awareness information provided by Registered Entities pursuant to the NERC Rules of Procedure and applicable governmental regulations, and shall provide other data, information and assistance to NERC in support of NERC's activities in monitoring present conditions, and responding to events, on the Bulk-Power System

(ii) Texas RE shall collaborate with NERC in its efforts to coordinate electric industry activities to promote critical infrastructure protection of the Bulk-Power System in North America.

**8. Oversight of Performance of Delegated Functions and Related Activities.**

This Section 8 sets forth processes and procedures which the Parties intend shall be used in NERC's oversight of Texas RE's performance of its Delegated Authority and related activities pursuant to this Agreement. It is the intent of NERC and Texas RE that matters relating to NERC's oversight of Texas RE's performance of its Delegated Authority and related activities shall be established or resolved by collaboration between NERC and Texas RE and, where applicable, other Regional Entities, to the maximum extent possible, consistent with the construct that NERC and the Regional Entities are operating together in a collaborative manner to carry out the responsibilities of the ERO under Section 215 of the Act and the ERO Regulations.

(a) (i) NERC shall develop, in collaboration with Texas RE and other Regional Entities, performance goals, measures and other parameters (including, without limiting the scope of such goals, measures and parameters, financial performance goals, measures and parameters), and performance reports, which shall be used to measure NERC's and Texas RE's performance of their respective functions and related activities. The performance goals, measures and parameters and the form of performance reports shall be approved by the NERC President and shall be made public. Texas RE shall provide data, information and reports to

NERC, in accordance with established schedules, to enable NERC to calculate Texas RE's performance to the agreed-upon goals, measures and parameters.

(ii) NERC shall use the performance goals, measures and parameters and performance reports to evaluate Texas RE's performance of its delegated functions and related activities and to provide advice and direction to Texas RE on performance improvements. The performance goals, measures and other parameters and the values of such goals, measures and parameters, shall be reviewed by NERC, Texas RE and the other Regional Entities, revised if appropriate, and made public, on the same timeline as the annual business planning and budgeting process described in Section 9 of this Agreement.

(iii) At the request of the President of NERC, Texas RE shall be required to develop, submit for NERC approval, and implement action plans to address areas of its performance that are reasonably determined by NERC, based on analysis of Texas RE's performance against the performance goals, measures and parameters, or performance of specific activities, to be unsatisfactory, *provided*, that prior to requiring Texas RE to adopt and implement an action plan or other remedial action, NERC shall issue a notice to Texas RE of the need and basis for an action plan or other remedial action and provide an opportunity for Texas RE to submit a written response contesting NERC's evaluation of Texas RE's performance and the need for an action plan. Texas RE may request that the President of NERC reconsider the request, and thereafter may request that the NERC Board review and reconsider the request. NERC and Texas RE shall work collaboratively as needed in the development and implementation of Texas RE's action plan. A final action plan submitted by Texas RE to NERC shall be made public unless the President of NERC makes a written determination that the action plan or specific portions of the plan should be maintained as non-public.

(b) NERC shall make available to Texas RE standardized training and education programs, which shall be designed taking into account input from Texas RE and other Regional Entities, for Texas RE personnel on topics relating to the delegated functions and related activities.

(c) (i) NERC may issue directives to Texas RE concerning the manner in which Texas RE shall perform its delegated functions and related activities under this Agreement. The NERC Rules of Procedure, or any other ERO Rule requiring approval of the Commission, shall not be considered "directives." NERC shall initiate the development of a directive through a

collaborative process with Texas RE and, if applicable, other Regional Entities to which the directive will apply. Any directive developed through the collaborative process shall be approved by, and issued under the signature of, the NERC President.

(ii) If after a period of time that is reasonable under the circumstances, NERC and Texas RE and, if applicable, other Regional Entities are unable to reach agreement on the contents of the directive, NERC may issue the directive with the approval of and under the signature of the NERC President; *provided*, that before the NERC President issues a directive pursuant to this paragraph (ii), Texas RE and, if applicable, other Regional Entities, shall be given a reasonable opportunity to present their positions on, and a suggested alternative version or versions of, the proposed directive to the NERC President.

(iii) Upon issuance of a directive by the NERC President, it shall be binding upon, and shall be complied with by, Texas RE, subject to reasonable time periods for adoption, implementation, and funding of any necessary resources. Upon request by Texas RE, the NERC Board (or a committee of the Board to which the Board delegates appropriate authority) shall review and shall confirm, revise or revoke any directive that was issued by the NERC President without Texas RE's agreement, *provided*, that Texas RE shall request such review within thirty (30) days following issuance of the directive by the NERC President unless good cause can be shown for a later request.

(iv) NERC and Texas RE and, if applicable, other Regional Entities, shall collaborate in deciding whether a directive (whether issued pursuant to paragraph (ii) or paragraph (iii)) shall be made public. If no agreement is reached by the date of issuance as to whether the directive shall be made public, the NERC President shall decide whether the directive will be made public, *provided*, that is the intent of the Parties that the NERC President shall apply a presumption that directives should be made public, unless the NERC President makes a written determination stating a specific reason for maintaining a particular directive as non-public.

(d) In addition to the issuance of directives pursuant to subsection (c), the NERC Board (or a Board committee to which the Board has delegated authority) may issue guidance or directions as to the manner in which Texas RE, and, if applicable, other Regional Entities, shall perform delegated functions and related activities. The Board or Board committee shall also establish reasonable time periods for the implementation of any such guidance or directions,

taking into account the impact on the reliability of the Bulk-Power System and the need for funding of additional resources. Any such guidance or directions shall be stated in writing and shall be public, unless the Board or Board committee makes a written determination stating a specific reason for maintaining particular guidance or directions as non-public. Texas RE, either individually or in conjunction with other Regional Entities, may request that the NERC Board or Board committee reconsider or revise the guidance or direction.

(e) NERC shall conduct collaborative reviews with Texas RE, either individually or in conjunction with one or more other Regional Entities, that provide for the exchange of information on practices, experiences, and lessons learned in the implementation of the delegated functions.

(f) Any audits of Texas RE performed by NERC shall be limited to an examination of Texas RE's compliance with this Agreement, NERC's Rules of Procedure, the Compliance Monitoring and Enforcement Program, Commission requirements, and directives that are in effect pursuant to Section 8(c)

**9. Funding.** Texas RE and NERC shall ensure, subject to Commission approval in accordance with the ERO Regulations, that the delegated functions and related activities described in Sections 5, 6 and 7 and listed on **Exhibit E** have reasonable and adequate funding and resources by undertaking the following:

(a) Texas RE shall develop, through a collaborative process with NERC, and propose, an annual business plan and budget, in accordance with ERO Regulations, Commission orders and NERC business planning and budgeting policies and instructions. Texas RE's proposed business plan and budget shall describe the activities necessary for, and provide a budget with adequate resources for, Texas RE to carry out its Delegated Authority under this Agreement, including the functions and activities described in Sections 5, 6 and 7 and listed on **Exhibit E**. Texas RE's business plan and budget shall show the funding sources and amounts to fund the proposed budget, including as applicable assessments to end users, penalty monies, and other sources of funds.

(b) Texas RE and NERC agree that the portion of Texas RE's approved budget for the functions and activities described in Sections 5, 6 and 7 and listed on **Exhibit E** that is to be funded by assessments, 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 by May 15 for approval, 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 the ERO Regulations for such year.

(c) NERC shall determine that the assessments to fund the costs for its statutory functions in its Commission-approved budget 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 or forms for business plan and budget submittal, and any accompanying instructions, in accordance with the schedule for preparation of the business plan and budget developed by NERC and the Regional Entities.

(e) Texas RE shall submit its proposed annual business plan and budget for carrying out its Delegated Authority functions and related activities described in Sections 5, 6 and 7 and listed on Exhibit E, as well as for all other activities of Texas RE, to NERC for review and approval in accordance with the annual schedule for the preparation of business plans and budgets which shall be developed collaboratively by NERC and the Regional Entities, as more fully described in **Exhibit E**.

(f) NERC shall fund Texas RE's performance of its Delegated Authority and related activities in accordance with Texas RE's Commission-approved business plan and budget, in the amount of Texas RE's assessments to end users approved by the Commission. **Exhibit E** sets forth the procedures and timing for billing and collecting Texas RE's approved assessments from end users and other entities and payment of the approved assessment amount to Texas RE, unless otherwise modified and approved by NERC and the Commission. NERC shall not impose any material obligation or requirement regarding the Delegated Authority upon Texas

RE that has not been provided for in an approved business plan and budget or an approved amended or supplemental business plan and budget, without Texas RE's consent.

(g) 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 and Texas RE fiscal year budget with the actual results at the NERC and Regional Entity levels. Texas RE shall follow NERC's prescribed system of accounts except to the extent that NERC permits a departure from the 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.

(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 May 1 of the following year.

(j) **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 of Texas RE) 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. *Provided*, that, subject to approval by NERC and the Commission, Texas RE may propose and implement an alternative use of penalty monies to that set forth in **Exhibit E**.

**10. 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 without NERC's express consent; 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.

**11. 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 Section 11, 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 18 of this Agreement to resolve a dispute as to whether a Breach has occurred or been cured. The provisions of this Section 11 will survive termination of this Agreement.

**12. Term and Termination.**

(a) This Agreement shall become effective on January 1, 2011 (the “Effective Date”).

(b) The term of the Agreement shall be five (5) years from the Effective Date, prior to which time NERC shall conduct an audit pursuant to subsection 6(i) to ensure that 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. This Agreement may be renewed for successive additional five (5) year renewal terms provided that prior to the end of each renewal term, NERC shall conduct an audit pursuant to subsection 6(i) to ensure that Texas RE continues to meet all applicable statutory and regulatory requirements necessary to maintain its eligibility for

delegation. Provided, that either Party may terminate this Agreement as of the end of a term by giving written notice to terminate at least one (1) year prior to the end of the term. If this Agreement is not renewed or becomes subject to termination for any reason, the Parties shall work to provide for a transition of Texas RE's Delegated Authority to NERC or to another eligible entity and to provide for the resolution of any wind-up costs associated with termination of this Agreement. 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 13), No Third Party Beneficiaries (Section 14) and Confidentiality (Section 15) shall survive this Agreement in accordance with their terms until sixty (60) days following the expiration of any applicable statute of limitations.

**13. 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.

**14. 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.

**15. 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.

**16. 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.

**17. Amendments to the NERC Rules of Procedure**. NERC shall not adopt amendments to the NERC Rules of Procedure 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 18 and, if such effort fails to resolve the dispute, to petition the Commission to adopt the amendment to the NERC Rules of Procedure. 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.

**18. Dispute Resolution**. In the event a dispute arises under this Agreement between NERC and Texas RE (including disputes relating to NERC's performance of its obligations under this Agreement and/or disputes relating to Texas RE's performance of its obligations under this Agreement) which cannot be resolved through discussions between representatives of the Parties in the normal course of operations, the Parties shall use the following procedures ("Dispute Resolution") to attempt to resolve the dispute. Texas RE shall not suspend performance of any delegated function, and the Parties shall continue to make reasonable, good faith efforts to comply with their obligations under this Agreement, during the pendency of Dispute Resolution. All notices required to be sent pursuant to this Dispute Resolution procedure shall be sent in accordance with Section 19 of this Agreement. This Dispute Resolution procedure is separate from and in addition to all other processes provided for in this Agreement.

(a) The Party invoking Dispute Resolution shall send a notice to the other Party describing the dispute, stating the invoking Party's position with respect to the dispute, stating that the Party is invoking Dispute Resolution, and naming the Party's designated representative for negotiating a resolution of the dispute. The designated representative shall have authority to resolve the dispute on behalf of the invoking Party.

(b) Within three (3) business days after receipt of the notice invoking Dispute Resolution, the receiving Party shall send a notice to the invoking Party acknowledging receipt of the notice invoking Dispute Resolution, stating the receiving Party's position with respect to the dispute, and naming the Party's designated representative for negotiating a resolution of the dispute. The designated representative shall have authority to resolve the dispute on behalf of the receiving Party.

(c) During the period commencing three (3) business days and ending twenty (20) business days after the date of the receiving Party's notice, the designated representatives shall engage in good faith negotiations to attempt to resolve the dispute, *provided*, that the designated representatives may agree prior to the end of such twenty (20) business day period that the process should move to the next step of Dispute Resolution.

(d) If the designated representatives are unable to arrive at a resolution of the dispute by the end of the time period described in subsection (c), they shall notify the chief executive officers of their respective Parties. The chief executive officers of the Parties shall thereafter engage in good faith negotiations to attempt to resolve the dispute during the period of twenty (20) business days immediately following the time period described in subsection (c), *provided*, that the chief executive officers may agree prior to the end of such twenty (20) business day period that negotiations are at impasse and the process may move to the next step as described in subsection (f). Upon mutual agreement of the Parties, the twenty (20) business day period may be extended to pursue ongoing good faith negotiations.

(e) If a resolution of the dispute is achieved by the Parties, it shall be memorialized in a writing that is acceptable in form and substance to each party and is signed by the designated representative or chief executive officer on behalf of each Party.

(f) If the Parties are unable to resolve the dispute pursuant to the process described in subsections (a) through (e), then either Party may invoke any other available dispute resolution mechanism, including, without limitation, filing a complaint or petition with the Commission

requesting resolution of the dispute by the Commission, or filing a complaint for relief in a court having jurisdiction over Parties and the subject matter of the dispute in accordance with Section 20. *Provided, however,* that: (i) it is the intent of the Parties that unresolved disputes shall be presented to and resolved by the Commission if the Commission has and accepts jurisdiction over the subject matter of the dispute, (ii) the Parties may, by mutual agreement, attempt to resolve the dispute through arbitration, mediation, or other process involving resort to an impartial neutral, and (iii) it is the intent of the Parties that resolution of disputes through Commission proceedings, arbitration, mediation, or other use of an impartial neutral, is preferred over resort to judicial proceedings.

(g) This Section 18 shall not apply to compliance enforcement actions against individual Registered Entities.

**19. 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: General Counsel  
Facsimile: (609) 452-9550

If to Texas RE:

Texas Reliability Entity, Inc.  
2700 Via Fortuna  
Suite 225  
Austin, Texas 78746  
Attn: General Counsel  
Facsimile:(512) 225-7165

**20. 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.

**21. 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.

**22. 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 maintain reliability of the Bulk-Power System within the geographic boundaries described in **Exhibit A** that are outside the Delegated Authority, 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**.

**23. 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 Effective Date.

NORTH AMERICAN  
ELECTRIC RELIABILITY CORPORATION

TEXAS RELIABILITY ENTITY, INC.

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

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

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

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

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

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

Date: \_\_\_\_\_

Date: \_\_\_\_\_

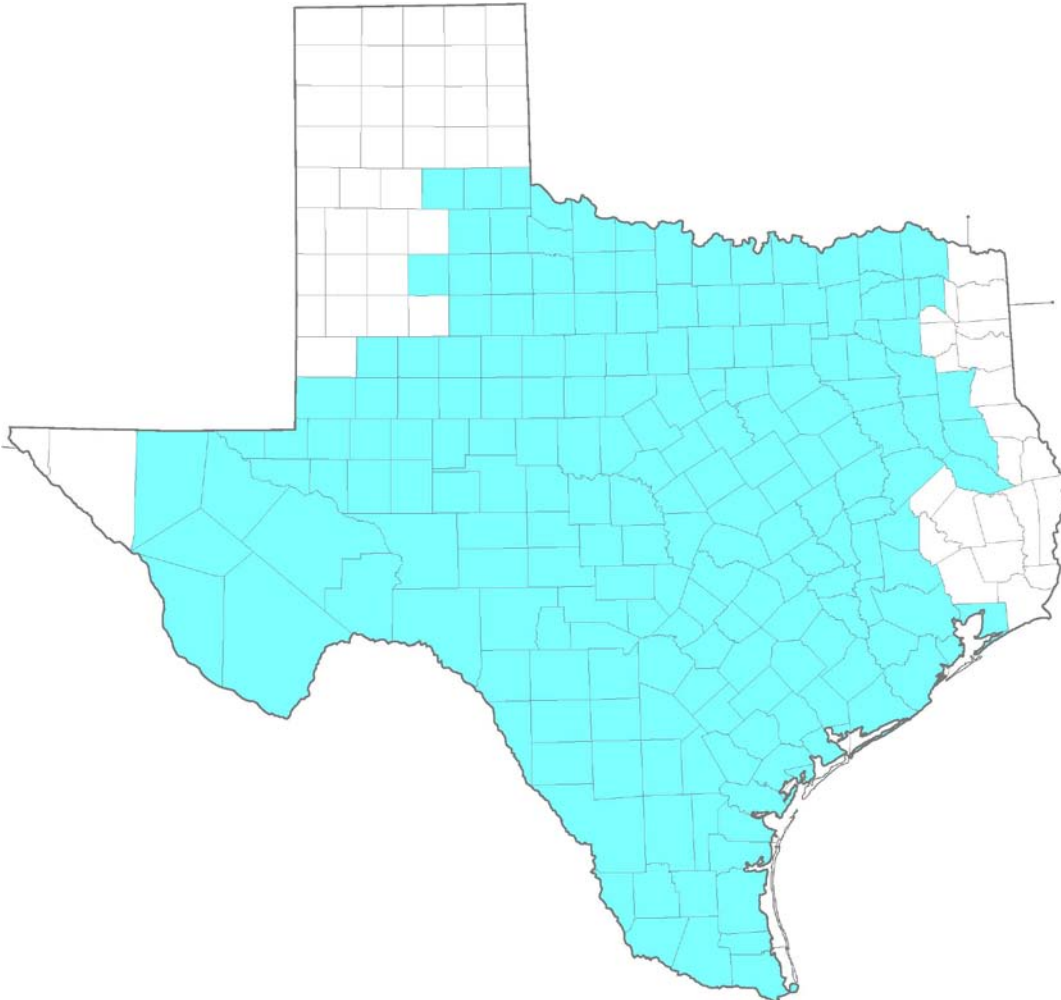


## **Exhibit A — Regional Boundaries**

**Exhibit A** to the delegation agreement for each Regional Entity receiving Delegated Authority shall describe the geographic or electrical boundaries covered by the proposed delegation of authority. **Exhibit A** for each Regional Entity shall reflect coordination with neighboring Regional Entities, as appropriate, to ensure that all relevant areas are either included within the geographic boundaries of a Regional Entity or specifically identified as not being within the geographic boundaries of any Regional Entity. Any exclusions of geographic or electrical areas or of Registered Entities from the scope of the Regional Entity's Delegated Authority within the geographic or electrical boundaries shown on **Exhibit A**, and any additions of geographic or electrical areas or of Registered Entities located outside the boundaries shown on **Exhibit A** to the scope of the Regional Entity's Delegated Authority, shall be specifically stated or described in **Exhibit A**.

## **EXHIBIT A – REGIONAL BOUNDARIES**

The ERCOT Region 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 indicated on the map below.



## Exhibit B – Governance

Exhibit B shall set forth the Regional Entity’s bylaws, which NERC agrees demonstrate 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)

Approved by Membership – February 5, 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 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 and 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**

**Reliability Standards Committee (RSC)** — The Texas RE 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 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 committee.

### **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 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></ul>
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	<ul style="list-style-type: none"><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.



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, and 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:

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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 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

<p><b>Purpose</b> (Describe the purpose of the proposed regional reliability standard – what the standard will achieve in support of reliability.)</p>
--

<p><b>Industry Need</b> (Provide a detailed statement justifying the need for the proposed regional reliability standard, along with any supporting documentation.)</p>
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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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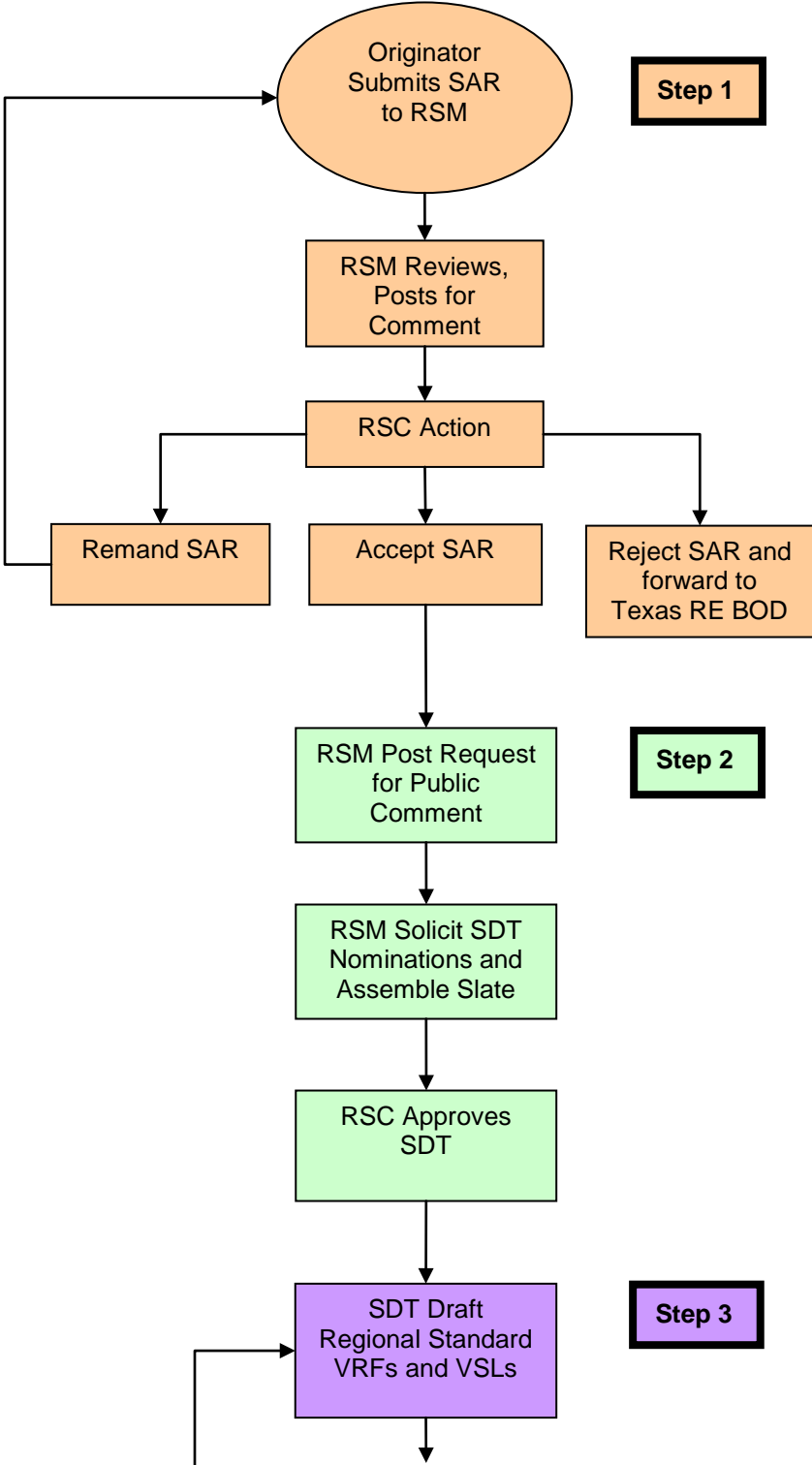
**Related Standards**

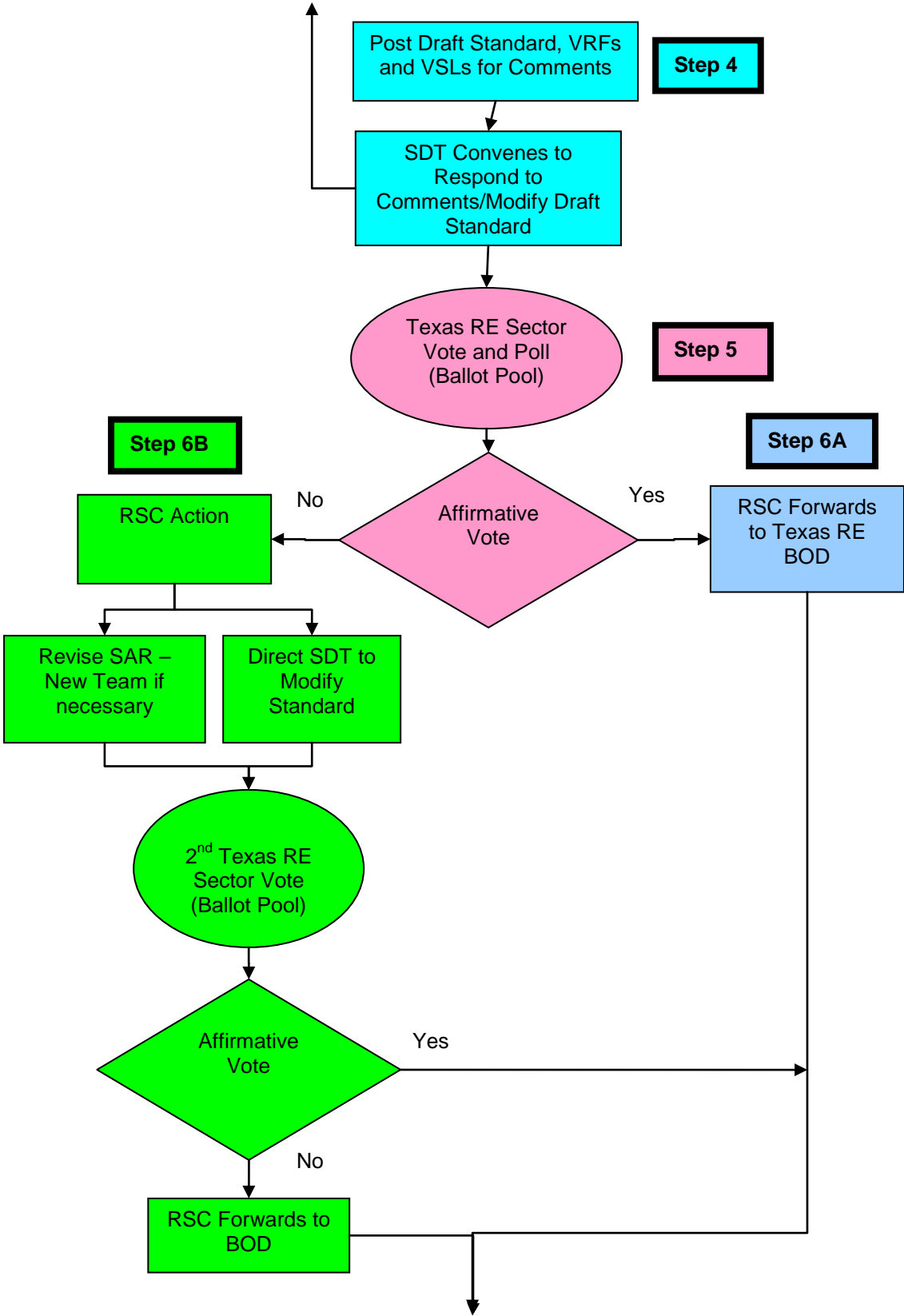
Standard No.	Explanation

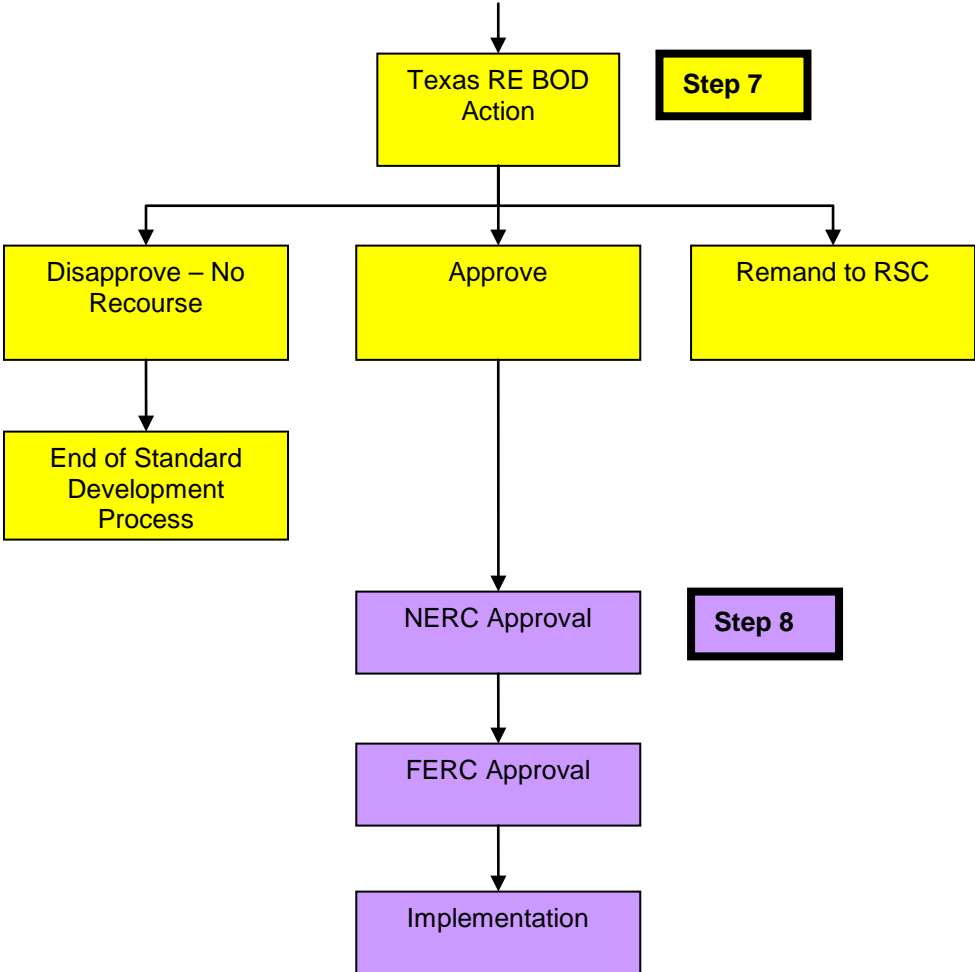
**Related SARs**

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**

**Texas RE** will implement the NERC Compliance Monitoring and Enforcement Program, Appendix 4C to the NERC Rules of Procedure (which for purposes of this section 1.0 shall not include Attachment 2, Hearing Procedures), to monitor and enforce compliance with Reliability Standards by the owners, operators, and users within **Texas RE's** geographic or electrical boundaries, and such other scope, set forth on **Exhibit A** of this Agreement.

### **2.0 REGIONAL HEARING OF COMPLIANCE MATTERS**

**Texas RE** shall establish and maintain a hearing body with authority to conduct and render decisions in compliance hearings in which a Registered Entity may contest a finding of alleged violation, proposed penalty or sanction, or a proposed mitigation plan, which shall be either **Texas RE's** board or a balanced compliance panel reporting directly to **Texas RE's** board. **Texas RE's** hearing body is the Public Utility Commission of Texas (PUCT).

- A. **Hearing Body.** Texas RE will use the 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 is comprised of three Commissioners who are appointed by the Governor of the State of Texas. 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>3</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

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<sup>3</sup> Order 672, ¶511.

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

- D. **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.

Texas RE shall conduct all compliance hearings in which a Registered Entity may contest a finding of alleged violation, proposed penalty or sanction, proposed Mitigation Plan, or a proposed Remedial Action Directive, in accordance with Attachment 2, Hearing Procedures, to the NERC Compliance Monitoring and Enforcement Program, subject to the following deviations, if any:

**Detailed Hearing Procedures.** The details of the Texas RE 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."

### 3.0 OTHER DECISION-MAKING BODIES

Texas RE uses only its board as its decision-making body.

## **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 RE shall include in its annual budget submission to NERC amounts for costs it will incur in performing its delegated functions and related activities as described in Sections 5, 6 and 7 of the Agreement. These activities shall include:

- Reliability Standard Development
- Compliance Monitoring and Enforcement
- Organization Registration and Certification
- Reliability Assessment and Performance Analysis (including necessary data gathering activities)
- Event Analysis and Reliability Improvement
- Training and Education
- Situation Awareness
- Infrastructure Security

### 2. Preparation of Annual Business Plan and Budget

(a) NERC and Texas RE, in conjunction with the other Regional Entities, shall collaboratively develop an annual schedule for the development, submission, review and approval of Texas RE's business plan and budget. The annual schedule for the preparation of business plans and budgets shall require Texas RE (i) to submit to NERC draft(s) of Texas RE's proposed business plan and budget and other preliminary documents and information, and (ii) to submit a final proposed business plan and budget that has been approved by Texas RE Board of Directors to NERC by July 1 or such other agreed date as provides sufficient time for NERC's review, approval and submission of Texas RE's business plan and budget to the Commission 130 days in advance of the beginning of each fiscal year. The Texas RE business plan and budget submission shall include supporting materials, including Texas RE's complete business plan and organization chart, explaining the proposed collection of all assessments, dues, fees and charges, and the proposed expenditure of the funds to be collected in sufficient detail to justify the requested budgeted expenditures and assessments. Texas RE's business plan and budget and proposed assessments shall provide for reasonable reserve mechanisms for unforeseen and extraordinary expenses and other contingencies, consistent with generally accepted accounting principles.

(b) NERC shall review and approve Texas RE's proposed business plan and budget and proposed assessments for performing the delegated functions and related activities described in Sections 5, 6 and 7 of this Agreement and listed above in Section 1 of this **Exhibit E**, or shall direct Texas RE to make such revisions as NERC deems appropriate prior to approval. NERC shall submit Texas RE's approved business plan and budget and proposed assessments to the Commission for approval as part of NERC's overall business plan and budget submission, in accordance with the ERO Regulations.

### 3. Allocation of Costs

Assessments to fund the costs of Texas RE's delegated functions and related activities pursuant to the Agreement shall be allocated among all load-serving entities on the basis of Net Energy for Load, unless a different method(s) of allocating and calculating such assessments has been submitted to and approved by NERC and the Commission in accordance with Section 9(b) of the Agreement. Texas RE shall submit to NERC annually at the same time it submits its budget request a list of the load-serving entities or designees within its geographic boundaries that shall be responsible for paying Texas RE's assessment and the load-serving entities' proportionate Net Energy for Load, and such other data and information as is necessary to allocate and calculate the allocation of Texas RE's assessment to the load-serving entities or designees under the method(s) of allocation and calculation that will be used. NERC and Texas RE agree that for purposes of Section 3 and 4 of this Exhibit E, Electric Reliability Council of Texas (ERCOT ISO), as the sole independent system operator and Balancing Authority, is the only load-serving entity or designee in Texas RE's region and shall be invoiced for the entire NERC and Texas RE assessments approved for collection.

#### 4. Collection of Funding

(a) NERC shall submit invoices to the load-serving entities or designees identified by Texas RE covering the NERC and Texas RE assessments approved for collection.

(b) NERC shall pursue any non-payments of assessment amounts and shall request assistance from ERO Governmental Authorities as necessary to secure collection. To the extent reasonably practicable, Texas RE shall assist NERC in pursuing and collecting any non-payments. Notwithstanding the foregoing, Texas RE is not responsible and does not assume any liability for recovering non-payments or underpayments of assessment amounts. NERC shall retain sole responsibility for recovering non-payments or underpayments of assessment amounts. NERC shall add the amount of any non-payments by end-users or designees within Texas RE's region, that are reasonably determined to be uncollectible, to NERC's assessments for a subsequent year with the amount of such non-payments to be allocated to end-users within Texas RE's region.

(c) Upon approval by ERO Governmental Authorities of Texas RE's annual assessment to fund the costs of its delegated functions and related activities, NERC shall pay Texas RE's annual assessment to Regional Entity in four equal quarterly payments on January 15, April 15, July 15 and October 15 of the budget year.

#### 5. Application of Penalties

Except as otherwise approved by the Commission, 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 Texas RE'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. Except as otherwise approved by the Commission, 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.

#### 6. Budget and Funding for Texas RE's Non-Statutory Activities

In addition to its delegated functions and related activities, as specified in Sections 5, 6 and 7 of the Agreement and in Section 1 of this **Exhibit E** (such delegated functions and activities referred to in this Section 6 as "statutory activities"), Texas RE performs the following other functions and activities (such other functions and activities being referred to in this Section 6 as "non-statutory activities"):

~~Texas RE does not anticipate will -auditing or and investigating investigate~~ market participants' compliance with ERCOT Protocols and Operating Guides (ERCOT regional rules), as the ERCOT region Reliability Monitor, through a continuation of its contract with the Public Utility Commission of Texas (the "PUCT", which directs the work) and ERCOT (the independent system operator, which makes the required contractual payment from its system administration fee), for at least an additional three-year period ending December 31, 2013, in 2014. Under this contract, Texas RE will continue to report possible non-compliance with reliability-related regional rules to the PUCT and will, however, need to respond to subpoenas and provide testimony and support to the Public Utility Commission of Texas (PUCT) regarding contested enforcement cases prosecuted by the PUCT. Texas RE's ERCOT Protocol and Operating Guide compliance and enforcement audits, investigations, and reports from the period in which Texas RE conducted the compliance investigations. These non-statutory activities are subject to continuation at the end of the contract term by mutual agreement by Texas RE and the PUCT. If the decision is made to terminate or not renew this contract in the future, Texas RE would perform reduced non-statutory activities for a period of time, under a modified contract, to transition these activities to a third party.

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 it incurs in the performance of its non-statutory functions separately from the costs 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 proposed annual business plan and budget for statutory activities to NERC pursuant to Section 9 of the Agreement. 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 and a description of the funding sources for the non-statutory activities. Texas RE agrees that no costs (which shall include a reasonable allocation of Texas RE's general and administrative costs) of non-statutory activities are to be included in the calculation of Texas RE's assessments, dues, fees, and other charges for its statutory activities.

#### 7. Amended or Supplemental Business Plans and Budgets

During the course of the fiscal year, if Texas RE determines it does not or will not have sufficient funds to carry out its delegated functions and related activities, Texas RE shall submit to NERC one or more proposed amended or supplemental business plans and budgets and requests for approval of supplemental assessments, reflecting costs, cost increases or funding shortfalls not provided for in Texas RE's approved business plan and budget for the fiscal year. NERC shall review and approve the proposed amended or supplemental business plan and budget and proposed supplemental assessment, or shall direct Texas RE to make such revisions as NERC deems appropriate prior to approval. NERC shall submit Texas RE's approved amended or supplemental business plan and budget and proposed supplemental assessment to the Commission for approval.

#### 8. NERC Review of Regional Entity Financial Statements

NERC shall conduct reviews of the quarterly and annual financial statements submitted by Texas RE pursuant to Section 9(h) and (i) of the Agreement. Texas RE shall provide supporting documentation for the quarterly and annual financial statements as reasonably requested by NERC based on its reviews.

**ATTACHMENT 4**

**RESOLUTION OF THE BOARD OF DIRECTORS  
OF TEXAS RELIABILITY ENTITY, INC.**



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**RESOLUTION OF THE BOARD OF DIRECTORS OF  
TEXAS RELIABILITY ENTITY, INC.**

January 7, 2011

WHEREAS, the Board of Directors (Board) of Texas Reliability Entity, Inc. (Texas RE), a Texas non-profit corporation, deems it desirable and in the best interest of Texas RE to approve an Amended Exhibit E to Texas RE's Amended and Restated Delegation Agreement with North American Electric Reliability Corporation (NERC) and a 2011 Business Plan and Budget Amendment to allow Texas RE to continue to perform services as the Reliability Monitor for the Public Utility Commission of Texas (PUCT), as non-statutory activities;

THEREFORE be it RESOLVED, that the Board hereby approves:

1. The Amended Exhibit E to Texas RE's Amended and Restated Delegation Agreement with NERC, which is attached hereto as Exhibit A and is incorporated herein for all purposes, with no material changes; and
2. The 2011 Business Plan and Budget Amendment, which is attached hereto as Exhibit B, and is 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 7, 2011 Texas Reliability Entity, Inc. Board Meeting, the Board of Directors approved the above referenced Resolution. The Motion passed by unanimous voice vote.

IN WITNESS WHEREOF, I have hereunto set my hand this 7th day of January, 2011.

A handwritten signature in blue ink, appearing to read "Susan Vincent", written over a horizontal line.

Susan Vincent  
Corporate Secretary