

September 24, 2010

**VIA ELECTRONIC FILING**

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

**Re: North American Electric Reliability Corporation  
Docket No. RR010-6 -000  
Reconciliation Report Submitted in Accordance with Petition for Approval of  
Delegation Agreement with Texas Reliability Entity, Inc. and  
2010 Business Plan and Budget of Texas Reliability Entity, Inc.**

Dear Ms. Bose:

The North American Electric Reliability Corporation (NERC) hereby submits the “Reconciliation Report Submitted in Accordance with Petition for Approval of Delegation Agreement with Texas Reliability Entity, Inc. and 2010 Business Plan and Budget of Texas Reliability Entity, Inc.” This filing is being submitted in accordance with NERC’s February 9, 2010 “Petition for Approval of Delegation Agreement with Texas Reliability Entity, Inc. and 2010 Business Plan and Budget of Texas Reliability Entity, Inc.”

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

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

Respectfully submitted,

/s/ Owen E. MacBride

Owen E. MacBride  
Attorney for North American Electric  
Reliability Corporation



On February 19, 2010, the North American Electric Reliability Corporation (NERC) filed a “Petition for Approval of Delegation Agreement with Texas Reliability Entity, Inc. and 2010 Business Plan and Budget of Texas Reliability Entity, Inc.” (Petition). In the Petition, NERC requested the necessary approvals from the Commission to delegate authority to Texas Reliability Entity, Inc. (New Texas RE) as the Regional Entity for the ERCOT Region, as successor to Texas Regional Entity (Original Texas RE), a division of Electric Reliability Council of Texas, Inc. (ERCOT). The Petition requested approval of (among other things) a Delegation Agreement between NERC and New Texas RE, and an Amended 2010 Business Plan and Budget for New Texas RE. By letter Order issued May 6, 2010, the Commission granted the approvals requested in the Petition.<sup>1</sup>

Pursuant to the Commission’s approvals, effective July 1, 2010, NERC terminated the existing Delegation Agreement with Original Texas RE and entered into the new Delegation Agreement with New Texas RE. Beginning July 1, 2010, New Texas RE has operated as the Regional Entity for the ERCOT Region.

In the Petition, NERC made the following representation:

Upon the effective date, any remaining funds of Original Texas RE from cash reserves, penalty payments received from registered entities, and unspent statutory revenues, will be distributed to New Texas RE. Within 90 days following the effective date, NERC and New Texas RE, working in cooperation with Original Texas RE (ERCOT), will prepare a reconciliation of the approved Original 2010 Business Plan and Budget of Original Texas RE to the actual receipts and expenditures by Original Texas RE from January 1, 2010 to the effective date, and a demonstration that all unspent collections and reserves have been appropriately transferred to New Texas RE. This reconciliation will be filed with the Commission.<sup>2</sup>

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<sup>1</sup> 131 FERC ¶ 61,112 (2010).

<sup>2</sup> Petition at 35-36. *See also* Petition at 2-3.

This representation was also set forth in the proposed Amended 2010 Business Plan and Budget of New Texas RE:

Upon Implementation, any remaining Original Texas RE funds from cash reserves, penalties, and any Statutory revenues which are not spent by Original Texas RE performing Statutory Activities, will be distributed to Texas RE. Texas RE and NERC will, within ninety (90) days after Implementation, prepare and file a reconciliation of the approved 2010 budget of Original Texas RE to the actual expenditures and revenues, from January 1, 2010 to Implementation, to demonstrate that all unspent collections and reserves were appropriately transferred to Texas RE.<sup>3</sup>

The purpose of this filing is to submit the above-described reconciliation reports to the Commission.

**Attachment 1** to this filing is a comparison of Original Texas RE's actual expenditures for the period January 1 – June 30, 2010, to its budgeted expenditures for this six-month period per its original approved Business Plan and Budget for 2010.<sup>4</sup> Note (1) to **Attachment 1** explains how the approved budgeted funding and expenditure amounts for 2010 were allocated or assigned to the six month period January 1 through June 30. Explanations are provided for actual cost-to-budget variances in individual line items that are greater than \$10,000 and 10% of the budget amount. **Attachment 1** is presented in generally the same format as the

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<sup>3</sup> Amended 2010 Business Plan and Budget of Texas Reliability Entity, Inc., Successor to Texas Regional Entity, A Division of Electric Reliability Council of Texas, Inc., Attachment 4 to the Petition, at 5. "Implementation" in the quoted passage refers to the date upon which Original Texas RE would cease performance of Regional Entity delegated functions and New Texas RE would begin to perform Regional Entity delegated functions under the new Delegation Agreement. As noted earlier, Implementation occurred on July 1, 2010.

<sup>4</sup> The original approved 2010 Business Plan and Budget for Original Texas RE was filed by NERC with the Commission on August 24, 2009, pursuant to 18 C.F.R §39.4, and was approved by the Commission in an Order issued October 15, 2009. *Order Conditionally Accepting 2010 Business Plan and Budget of the North American Electric Reliability Corporation and Ordering Compliance Filing*, 129 FERC ¶61,040 (2009).

reconciliations of the NERC and Regional Entity budgets to actual costs that are filed annually by NERC for the preceding year.<sup>5</sup>

**Attachment 2** to this filing provides a reconciliation of Original Texas RE's closing balances and New Texas RE's opening balances as of July 1, 2010. The reconciliation statement shows the closing balance in each account of Original Texas RE as of July 1, 2010, and the opening balances in the corresponding accounts of New Texas RE on that date.

As explained in Note (2) to the reconciliation statement, because Original Texas RE was a division of ERCOT, a regulated entity, it was necessary for Original Texas RE to employ regulatory accounting pursuant to Statement of Financial Accounting Standards No. 71 (FAS 71) in order to avoid the inclusion of Original Texas RE's unspent statutory funds in the ERCOT ISO's Retained Earnings account. However, since New Texas RE is unaffiliated with ERCOT (or with any other entity), it is unnecessary for New Texas RE to employ regulatory accounting pursuant to FAS 71. Accordingly, as shown on **Attachment 2**, the entries associated with the transfer of Original Texas RE's closing balances to New Texas RE include conversion entries to eliminate regulatory accounting. The conversion entries are explained in detail in Note (2) to the reconciliation statement. The reconciliation statement shows that, with the adjustments shown in the conversion entries, the closing balances for Original Texas RE as of July 1, 2010, were transferred to New Texas RE.

NERC respectfully requests that the Commission accept this filing, including **Attachment 1** and **Attachment 2**, as the reconciliation of the Original 2010 Business Plan and Budget of Original Texas RE to the actual receipts and expenditures by Original Texas RE from

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<sup>5</sup> See, e.g., *North American Electric Reliability Corporation's Report of Comparisons of Budgeted to Actual Costs for 2009 for NERC and the Regional Entities*, filed June 1, 2010 in Docket Nos. RR10-10-000 and RR08-6-000.

January 1 to June 30, 2010, and the demonstration that all unspent collections and reserves have been appropriately transferred to New Texas RE, as specified in the Petition and in the Amended 2010 Business Plan and Budget of New Texas RE.

Respectfully submitted,

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# **ATTACHMENT 1**

**TEXAS REGIONAL ENTITY**  
Statutory Statement of Activities  
For Year-to-Date June 30, 2010  
(Unaudited)

(In Whole Dollars)

	YTD 6/30/2010 Actual	2010 Original Budget 1/1/10 - 6/30/2010	Variance Over / (Under)	Percent Variance	Comments on Variances > \$10K and 10% + or -
<b>Funding</b>					
<b>ERO Funding</b>					
ERO Assessments	\$ 3,330,189	\$ 3,330,189	-	0%	
Penalty Sanctions	-	-	-	0%	
<b>Total ERO Funding</b>	<b>\$ 3,330,189</b>	<b>\$ 3,330,189</b>	<b>\$ -</b>		
Workshops	179,999	180,000	(1)	0%	
Interest	237	1,000	(763)	-76%	
<b>Total Funding</b>	<b>\$ 3,510,425</b>	<b>\$ 3,511,189</b>	<b>\$ (764)</b>		
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	\$ 1,642,346	\$ 1,675,645	(33,299)	-2%	
Payroll Taxes	127,103	132,771	(5,669)	-4%	
Benefits	179,526	180,406	(881)	0%	
Retirement Costs	209,743	240,038	(30,295)	-13%	Variance is based on actual utilization rates. The budget is for the highest benefit, however not all employees select that benefit level.
<b>Total Personnel Expenses</b>	<b>\$ 2,158,718</b>	<b>\$ 2,228,861</b>	<b>\$ (70,143)</b>	-3%	
<b>Meeting Expenses</b>					
Meetings	\$ 129,891	\$ 180,000	(50,109)	-28%	The costs for the Operations Training Seminar were less than budgeted.
Travel	59,450	97,196	(37,746)	-39%	Travel is not incurred equally in all months, there is more travel in some periods versus others. The budget assumed an equal amount of travel per month. It is believed that there will be a higher amount of travel in the 3 <sup>rd</sup> and 4 <sup>th</sup> quarters.
<b>Total Meeting Expenses</b>	<b>\$ 189,341</b>	<b>\$ 277,196</b>	<b>\$ (87,855)</b>	-32%	
<b>Operating Expenses</b>					
Consultants & Contracts	295,055	338,165	(43,111)	-13%	The IT services expenses and support services expenses (HR, Treasury, Accounting, Board of Directors, and Procurement) related to the memorandum of understanding between ERCOT ISO and Texas RE were less than budget primarily due to employee vacancies.
Office Rent	175,890	163,800	12,090	7%	
Office Costs	13,201	22,011	(8,810)	-40%	
Professional Services	555,221	317,312	237,908	75%	Texas Regional Entity incurred a higher rate of expense than budgeted primarily due to activities related to the setup of Information Technology infrastructure for Texas Reliability Entity, Inc.
Miscellaneous	12,591	18,118	(5,527)	-31%	
Depreciation	41,831	76,554	(34,722)	-45%	The budget had assumed a higher completion rate for putting capital assets into service.
<b>Total Operating Expenses</b>	<b>\$ 1,093,788</b>	<b>\$ 935,960</b>	<b>\$ 157,828</b>	17%	
<b>Total Direct Expenses</b>	<b>\$ 3,441,846</b>	<b>\$ 3,442,017</b>	<b>\$ (171)</b>	0%	
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	0%	
<b>Total Expenses</b>	<b>\$ 3,441,846</b>	<b>\$ 3,442,017</b>	<b>\$ (171)</b>	0%	
<b>Change in Assets</b>	<b>\$ 68,578</b>	<b>\$ 69,172</b>	<b>\$ (593)</b>	-1%	
<b>Fixed Assets</b>					
Depreciation	(41,831)	(76,554)	34,722	-45%	See above
Computer & Software CapEx	646,686	153,250	493,436	322%	Increased rate of IT and other capital expenditures are related to the legal separation of Texas Regional Entity from ERCOT ISO. This was necessary to accomplish the new company startup effective on July 1, 2010. All of these assets were transferred to Texas Reliability Entity, Inc. on 7/1/2010. These costs were budgeted under the Amended Budget approved by FERC on 5/6/2010.
Furniture & Fixtures CapEx	-	7,608	(7,608)	-100%	
<b>Change in Fixed Assets</b>	<b>\$ (604,855)</b>	<b>\$ (84,304)</b>	<b>\$ 520,551</b>		
<b>TOTAL CHANGE IN ASSETS</b>	<b>\$ (536,276)</b>	<b>\$ (15,132)</b>	<b>\$ 521,144</b>		

**NOTES:**

- 1) Texas Regional Entity's budget for the six (6) months of 2010 was generally 1/2 of the annual amount, except in Funding for the Workshops and the Meeting Expense categories. In both of those cases, the budget was different and specific to cover the costs and revenue associate with Texas RE's Operations Training Seminar which occurred in the 1st Quarter of 2010.



## **ATTACHMENT 2**

RECONCILIATION of Texas Regional Entity Closing Balances and Texas Reliability Entity, Inc.'s Opening Balances

Texas Regional Entity Balance Sheet / Stmt of Financial Position				Texas Reliability Entity, Inc. Balance Sheet / Statement of Financial Position				
FISCAL- YEAR	ACCOUNT	ACCOUNT-DESC	Closing Balances for Old Texas RE	[2] Conversion Entry to Eliminate Regulatory Accounting	[1] Opening Balances for Texas Reliability Entity, Inc.	Account	Account Description	Amount
2010	10077	CHASE-TRE Operating Account	31,320.32	-	31,320.32	11100-100-0000	Operating Account	31,320.32
2010	10711	Federated Fund-TRE Reserve	1,267,429.76	-	1,267,429.76	11100-100-0000	Operating Account	1,267,429.76
2010	10712	JP Morgan - TRE Operating	52,851.09	-	52,851.09	11100-100-0000	Operating Account	52,851.09
2010	10713	JP Morgan - TRE Fines	20,000.71	-	20,000.71	11500-100-0000	Fines & Penalties	20,000.71
2010	12560	AR-Texas Regional Entity	623,713.89	(623,713.89) a	-			
2010	13000	Prepays / Deposits	38,938.78	-	38,938.78	16300-100-0000	Prepaid Expenses	38,938.78
2010	15350	Software	501,313.65	-	501,313.65	17500-100-0000	Fixed Assets - Software	501,313.65
2010	15360	Software Accum Depr	(99,420.96)	-	(99,420.96)	18500-100-0000	Accumulated Depreciation - Software	(99,420.96)
2010	15900	Asset Clearing	681,110.92	-	681,110.92	17200-100-0000	Fixed Assets - Computer	681,110.92
2010	21000	Accrued Fees	(634,678.12)	-	(634,678.12)	22000-100-0000	Accrued Expenses	(634,678.12)
2010	21030	Accrued Vacation	(149,658.23)	-	(149,658.23)	22100-100-0000	Accrued Vacation	(149,658.23)
2010	21170	Accrued Audit Fees	(30,000.00)	-	(30,000.00)	22000-100-0000	Accrued Expenses	(30,000.00)
2010	22330	TRE Regulatory Liab-Current	(244,309.84)	244,309.84 b	-			
2010	23060	Deferred TRE Revenue	(10,000.02)	(10,000.69) c	(20,000.71)	25100-100-0000	Deferred Revenue	(20,000.71)
2010	25070	Deferred Regulatory Liab-TRE	(948,938.86)	948,938.86 d	-			
2010	30999	Undistributed Retained Earnings	(563,397.41)	(559,534.12) e	(1,122,931.53)	30100-100-0000	Net Assets	(1,122,931.53)
2010	31000	Retained Earnings	(536,275.68)	-	(536,275.68)	30100-100-0000	Net Assets	(536,275.68)

**NOTES:**

[1] This is the opening entry for Texas Reliability Entity, Inc. These balances represent all of the final balances for Texas Regional Entity after its settlement with ERCOT. The date of entry was 7/1/2010 which was the date Texas Reliability Entity, Inc. assumed the delegated duties of Texas Regional Entity.

[2] Texas Regional Entity used Regulatory Accounting (FAS71) to eliminate the possibility of Unspent Statutory Funds from being reflected under ERCOT ISO's Retained Earnings account in their Financial Statements originally in 2007. Texas Regional Entity was originally consolidated within ERCOT's financial statements and to avoid the details from being lost in the consolidation process, Texas Regional Entity elected to establish a Regulatory Liability under the FAS71 rule of accounting. This mitigated the possibility that Texas Regional Entity's positive fund balance would not be accounted for appropriately.

Again, in both 2008 and 2009, Texas Regional Entity used Regulatory Accounting with respect to Unspent Statutory Funds and how it was treated in its financial statements. The results of keeping the unspent funds earmarked in a deferred revenue (Regulatory Liability) account was appropriate accounting for the Texas Regional Entity/ERCOT ISO operating model. However, Texas Reliability Entity, Inc. does not have that same operating model and it is now appropriate to eliminate the additional work and complexity of Regulatory Accounting for this new corporation. It is the most effective and cleaner to make this change when accounting for the opening balances of the new corporation.

Since Texas Reliability Entity, Inc. is not a division of ERCOT ISO, it is no longer necessary to use Regulatory Accounting (FAS71). It is appropriate to eliminate the Regulatory Accounting balances from the new company and to allow the residual amounts to accumulate under Retained Earnings/Net Assets. The elimination entry depicted above is a balanced accounting entry, whereby the Debits = Credits.

a) Texas Regional Entity prefunded Texas Reliability Entity, Inc. to allow the new corporation to establish its insurances and pre-operations set-up costs.

This transfer of cash to Texas Reliability Entity, Inc. generated a receivable for Texas Regional Entity. However, since Texas Reliability Entity, Inc. has taken control of the assets, liabilities and obligations of Texas Regional Entity, it is appropriate to eliminate this Accounts Receivable balance against the Regulatory Liability and/or Retained Earnings. This eliminates that receivable.

b) In order to eliminate the Regulatory Liability (current portion), it must be applied against Retained Earnings/Net Assets. This entry eliminates that liability by offsetting the account against Retained Earnings/Net Assets.

c) This related to a penalty amount which was collected in 2009 which was to be held in the Regulatory Liability balance until 1/1/2011. However, with the elimination entry, it is being reclassified to Deferred Revenue and the balance of \$20,000.71 will be released per Texas Reliability Entity, Inc.'s 2011 Business Plan & Budget, effective 1/1/2011. This entry was necessary to remove the deferred amount from the Regulatory Liability and to record this amount separately under deferred revenue for future recognition.

d) In order to eliminate the Regulatory Liability (deferred portion), it must be applied against Retained Earnings/Net Assets. This entry eliminates the deferred liability by offsetting the account against Retained Earnings/Net Assets. This balance included \$10,000.69 of penalty money from 2009, which is being reclassified to Deferred Revenue to be released in 2011.

e) This is the residual effect of the elimination entry and the net change in Retained Earnings/Net Assets associated with the elimination of Texas Regional Entity's Regulatory Liability balance. This entry eliminates the balance of the regulatory liability and increases Retained Earnings/Net Assets.

**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 September, 2010.

/s/ Owen E. MacBride  
Owen E. MacBride

*Attorney for North American Electric  
Reliability Corporation*