

## Agenda Board of Trustees

February 16, 2010 | 8–11 a.m.  
Arizona Grand Resort  
8000 South Arizona Grand Parkway  
Phoenix, AZ 85044  
877-800-4888

### **Introductions and Chairman's Remarks**

### **Antitrust Compliance Guidelines**

### **Consent Agenda — Approve**

#### **\*1. Minutes**

- [January 8, 2010](#)
- [December 22, 2009](#)
- [December 16, 2009](#)
- [November 19, 2009](#)
- [November 5, 2009](#)

#### **\*2. Committee Membership Appointments and Changes**

- a. Standing Committee Membership Changes
- b. Standing Committee Charter Changes

#### **\*3. Future Meetings**

### **Regular Agenda**

4. **President's Report**
5. **Election and Appointment of Officers — Approve**

**\*6. Reliability Standards**

- a. Interpretation of [CIP-001-1, R2 — Covanta Energy](#) — **Approve**
- b. Interpretation of [CIP-005-1, R1.3 and Applicability Section 4.2.2 — PacifiCorp](#) — **Approve**
- c. Interpretation of [CIP-006-1, R1.1 — PacifiCorp](#) — **Approve**
- d. Interpretation of [EOP-002-2, R6.3 and R7.1 — Brookfield Power](#) — **Refer to Address Appeals Issues**
- e. Violation Severity Levels for March 1, 2010 Compliance Filing — **Approve**
- f. Standards Committee Charter Revisions — **Approve (Attachment 1)**
- g. Status of Revision to Definition of “Protection System” — **Information**
- h. Update on Modifications to Reliability Standards Development Procedure — **Information (Attachment 2)**
- i. Summary Update of Standards Program Activity — **Information**

**\*7. Compliance and Certification Committee (CCC) Matters**

- a. CCC Charter Revisions — **Approve**
- b. CCC Confidentiality Protocol — **Approve**
- c. CCC Performance Measure Task Force Update — **Information**

**\*8. Texas Regional Entity (TRE) Amended and Restated Delegation Agreement and Amended 2010 Business Plan and Budget — Approve**

**\*9. Amendments to Delegation Agreements with Florida Reliability Coordinating Council (FRCC), Southwest Power Pool (SPP), and SERC Reliability Corporation (SERC) — Approve**

**\*10. Status of Three-Year Performance Assessment — Information Only**

**Committee, Group, and Forum Reports (Agenda Item 11)**

[Critical Infrastructure Protection Committee](#)

[Member Representatives Committee](#)

[North American Energy Standards Board](#)

[Operating Committee](#)

[Personnel Certification Governance Committee](#)

[Planning Committee](#)

[Regional Entity Management Group](#)

[Standards Committee](#)

[North American Transmission Forum](#)

[Electricity Sector Steering Group](#)

## **Board Committee Reports**

### **12. Corporate Governance and Human Resources**

### **13. Compliance**

### **14. Finance and Audit**

- a. December 31, 2009 Statement of Activities
- b. 2011 NERC Business Plan and Budget Preparation Schedule

### **15. Technology**

### **16. Nominating**

\* Background Material Included



## Antitrust Compliance Guidelines

### I. General

It is NERC's policy and practice to obey the antitrust laws and to avoid all conduct that unreasonably restrains competition. This policy requires the avoidance of any conduct that violates, or that might appear to violate, the antitrust laws. Among other things, the antitrust laws forbid any agreement between or among competitors regarding prices, availability of service, product design, terms of sale, division of markets, allocation of customers or any other activity that unreasonably restrains competition.

It is the responsibility of every NERC participant and employee who may in any way affect NERC's compliance with the antitrust laws to carry out this commitment.

Antitrust laws are complex and subject to court interpretation that can vary over time and from one court to another. The purpose of these guidelines is to alert NERC participants and employees to potential antitrust problems and to set forth policies to be followed with respect to activities that may involve antitrust considerations. In some instances, the NERC policy contained in these guidelines is stricter than the applicable antitrust laws. Any NERC participant or employee who is uncertain about the legal ramifications of a particular course of conduct or who has doubts or concerns about whether NERC's antitrust compliance policy is implicated in any situation should consult NERC's General Counsel immediately.

### II. Prohibited Activities

Participants in NERC activities (including those of its committees and subgroups) should refrain from the following when acting in their capacity as participants in NERC activities (e.g., at NERC meetings, conference calls and in informal discussions):

- Discussions involving pricing information, especially margin (profit) and internal cost information and participants' expectations as to their future prices or internal costs.
- Discussions of a participant's marketing strategies.
- Discussions regarding how customers and geographical areas are to be divided among competitors.

- Discussions concerning the exclusion of competitors from markets.
- Discussions concerning boycotting or group refusals to deal with competitors, vendors or suppliers.
- Any other matters that do not clearly fall within these guidelines should be reviewed with NERC's General Counsel before being discussed.

### **III. Activities That Are Permitted**

From time to time decisions or actions of NERC (including those of its committees and subgroups) may have a negative impact on particular entities and thus in that sense adversely impact competition. Decisions and actions by NERC (including its committees and subgroups) should only be undertaken for the purpose of promoting and maintaining the reliability and adequacy of the bulk power system. If you do not have a legitimate purpose consistent with this objective for discussing a matter, please refrain from discussing the matter during NERC meetings and in other NERC-related communications.

You should also ensure that NERC procedures, including those set forth in NERC's Certificate of Incorporation, Bylaws, and Rules of Procedure are followed in conducting NERC business.

In addition, all discussions in NERC meetings and other NERC-related communications should be within the scope of the mandate for or assignment to the particular NERC committee or subgroup, as well as within the scope of the published agenda for the meeting.

No decisions should be made nor any actions taken in NERC activities for the purpose of giving an industry participant or group of participants a competitive advantage over other participants. In particular, decisions with respect to setting, revising, or assessing compliance with NERC reliability standards should not be influenced by anti-competitive motivations.

Subject to the foregoing restrictions, participants in NERC activities may discuss:

- Reliability matters relating to the bulk power system, including operation and planning matters such as establishing or revising reliability standards, special operating procedures, operating transfer capabilities, and plans for new facilities.
- Matters relating to the impact of reliability standards for the bulk power system on electricity markets, and the impact of electricity market operations on the reliability of the bulk power system.
- Proposed filings or other communications with state or federal regulatory authorities or other governmental entities.
- Matters relating to the internal governance, management and operation of NERC, such as nominations for vacant committee positions, budgeting and assessments, and employment matters; and procedural matters such as planning and scheduling meetings.

# NERC

NORTH AMERICAN ELECTRIC  
RELIABILITY CORPORATION

## Minutes Board of Trustees

Action Without a Meeting  
January 8, 2010

On January 8, 2010, the members of the Board of Trustees of the North American Electric Reliability Corporation consented in writing to approve adding Gerry Cauley and Susan Turpen as authorized persons for NERC's bank accounts as described in the General Counsel's memorandum dated January 6, 2010, and as set forth in **Exhibit A**.

Attached to these minutes is the memorandum from the General Counsel requesting the action and the written votes of the trustees as **Exhibits A and B** respectively.

Submitted by,



Secretary

# NERC

NORTH AMERICAN ELECTRIC  
RELIABILITY CORPORATION

## Minutes Board of Trustees

Action Without a Meeting  
December 22, 2009

On December 22, 2009, the members of the Board of Trustees of the North American Electric Reliability Corporation consented in writing to authorize filing a request for clarification of Order No. 729 with the Federal Energy Regulatory Commission, as described in the General Counsel's memorandum dated December 21, 2009, and as set forth in **Exhibit C**.

Attached to these minutes is the memorandum from the General Counsel requesting the action, the written votes of the trustees, and the request for clarification of Order No. 729 as **Exhibits A, B, and C** respectively.

Submitted by,



Secretary





NORTH AMERICAN ELECTRIC  
RELIABILITY CORPORATION

## Draft Minutes Board of Trustees Conference Call

December 16, 2009 | 10:00 a.m. EST

Chairman John Q. Anderson convened a duly noticed open meeting by conference call of the Board of Trustees of the North American Electric Reliability Corporation on December 16, 2009 at 10:00 a.m., EST. As required by the bylaws of the Corporation, dial-in listen-only access was provided to members of the Corporation and the public for the meeting. The meeting notice and agenda is attached as **Exhibit A**.

Trustees present on the call in addition to Chairman Anderson were Paul Barber, Tom Berry, Janice Case, Fred Gorbet, Jim Goodrich, Ken Peterson, Bruce Scherr, Jan Schori, and Rick Sergel. Additional attendees are listed in **Exhibit B**.

### **Antitrust Compliance Guidelines**

David Cook, vice president and general counsel, directed the participants' attention to the NERC Antitrust Compliance Guidelines.

### **NERC Investment Policy Statement (Exhibit C)**

Michael Walker, chief financial and administrative officer, presented the NERC Investment Policy Statement to the board for approval. A draft of the investment policy statement had been distributed to board members prior to the meeting. Mr. Walker informed the board the purpose of this policy is to establish guidelines and responsibilities applicable to the management of funds held by the North American Electric Reliability Corporation. Revisions to this policy are subject to approval of the Board of Trustees after due consideration and recommendation by the Finance and Audit Committee of the Board.

On a motion by Fred Gorbet, the board approved the NERC Investment Policy Statement, as corrected by Mr. Walker during the discussion.

**Project 2008-06 —Cyber Security — Violation Risk Factors (for CIP-003-2 and CIP-006-2) and Violation Severity Levels (CIP-002-2 through CIP-009-2)**

Gerry Adamski, vice president and director of standards, presented the results of Project 2008-06 —Cyber Security — Violation Risk Factors and Violation Severity Levels for approval. Following discussion, on motion of Ken Peterson the board approved Violation Severity Level assignments for the following reliability standards:

- CIP-002-2 — Cyber Security — Critical Cyber Asset Identification
- CIP-003-2 — Cyber Security — Security Management Controls
- CIP-004-2 — Cyber Security — Personnel and Training
- CIP-005-2 — Cyber Security — Electronic Security Perimeter(s)
- CIP-006-2 — Cyber Security — Physical Security
- CIP-007-2 — Cyber Security — Systems Security Management
- CIP-008-2 — Cyber Security — Incident Reporting and Response Planning
- CIP-009-2 — Cyber Security — Recovery Plans for Critical Cyber Assets

and approved Violation Risk Factor (VRF) assignments for the following two CIP Version 2 standards:

- CIP-003-2 — Security Management Controls
- CIP-006-2 —Physical Security of Critical Cyber Assets

For requirements not addressed above, the board approved carrying forward approved Version 1 VRFs and VSLs to apply to the Version 2 standards.

**Project 2009-21 — Cyber Security Ninety-Day Response**

Gerry Adamski, vice president and director of standards, presented the results of Project 2009-21 — Cyber Security Ninety-Day Response for approval. Following discussion, on motion of Paul Barber the board approved the following items for inclusion in a compliance filing, due December 29, 2009, in response to FERC's September 30 order approving Version 2 of the CIP standards:

1. CIP-002-3 through CIP-009-3 reliability standards.
2. Violation Risk Factors for CIP-003-3 and CIP-006-3a and Violation Severity Levels for modified requirements in CIP-005-3, CIP-006-3a, and CIP-007-3.
3. For requirements not changed in CIP-002-3 through CIP-009-3, carry forward approved Version 2 VRFs and VSLs to apply to these requirements.
4. Implementation Plan for Version 3 of Cyber Security Standards CIP-002-3 through CIP-009-3.

5. Implementation Plan for Newly Identified Critical Cyber Assets and Newly Registered Entities.

### **NUC-001-2 — Nuclear Plant Interface Coordination Violation Risk Factors**

Gerry Adamski, vice president and director of standards, presented the results NUC-001-2 — Nuclear Plant Interface Coordination Violation Risk Factors for approval. Following discussion, on motion of Paul Barber the board approved the following revisions to the VRFs for NUC-001-1 — Nuclear Plant Interface Coordination for inclusion in a compliance filing due December 31, 2009, in response to FERC's Order No. 716:

- Requirement R2 (from Lower to Medium)
- Requirement R4 (from Medium to High)
- Requirement R5 (from Medium to High)
- Requirement R7 (from Medium to High)
- Requirement R8 (from Medium to High)
- Requirement R9 (from Lower to Medium)

### **Additional Item**

David Cook, vice president and general counsel, advised the board they may be asked to take action in writing without a meeting to authorize filing a request for clarification or rehearing of FERC's Order No. 729. Requests for rehearing are due December 24. A memorandum will be circulated to the board early in the week of December 21.

### **Closing Remarks**

In closing Chairman Anderson thanked everyone for a successful year and looked forward to starting the New Year in January.

There being no further business, the call was terminated at 10:33 a.m.

Submitted by,



David N. Cook  
Secretary



NORTH AMERICAN ELECTRIC  
RELIABILITY CORPORATION

## Draft Minutes Board of Trustees Conference Call

November 19, 2009 | 10:00 a.m. EST

Chairman John Q. Anderson convened a duly noticed open meeting by conference call of the Board of Trustees of the North American Electric Reliability Corporation on November 19, 2009 at 10:00 a.m., EST. As required by the bylaws of the Corporation, dial-in listen-only access was provided to members of the Corporation and the public for the meeting. The meeting notice and agenda is attached as **Exhibit A**.

Trustees present on the call in addition to Chairman Anderson were Paul Barber, Tom Berry, Janice Case, Fred Gorbet, Sharon Nelson, Ken Peterson, Bruce Scherr, Jan Schori, and Rick Sergel. Additional attendees are listed in **Exhibit B**.

### **Antitrust Compliance Guidelines**

David Cook, vice president and general counsel, directed the participants' attention to the NERC Antitrust Compliance Guidelines.

### **New CEO**

Chairman Anderson announced that the Board of Trustees had selected Gerry Cauley to be the next CEO of NERC and elected him President, to be effective January 1, 2010.

### **2009 Winter Assessment**

Mark Lauby, director of reliability assessment and performance analysis presented the 2009 Winter Assessment to the board for approval. A draft of the report had been distributed to board members prior to the meeting. Mr. Lauby informed the board the report is a joint effort of the Reliability Assessment Subcommittee (RAS), the Planning Committee (PC), and the NERC staff.

Chairman Anderson led the board through a discussion of general issues and observations. Various board members raised questions and suggested additional items to include in the draft. Chairman Anderson then led the board through the draft section-by-section, and board members raised particular questions and made observations at various points in the draft. On a motion by Fred Gorbet, the board approved the 2009 Winter Assessment, subject to the revisions discussed during the course of the meeting.

### **Closing Remarks**

Chairman Anderson commended Mark Lauby, the Reliability Assessment Subcommittee, and all those involved in the 2009 Winter Assessment for a job well done on such a significant project. Chairman Anderson also announced the selection of Gerry Cauley as the next CEO and President-elect of NERC, effective January 1, 2010, and officially welcomed him to the new position.

There being no further business, the call was terminated at 10:50 a.m.

Submitted by,



David N. Cook  
Secretary

## Draft Minutes Board of Trustees

November 5, 2009 | 8–11 a.m.  
The Ritz Carlton  
181 Peachtree Street, Northeast  
Atlanta, GA 30303  
(404) 659-0400

Chairman John Q. Anderson called to order a duly noticed meeting of the North American Electric Reliability Corporation Board of Trustees on November 5, 2009 at 8 a.m., local time, and a quorum was declared present. Chairman Anderson provided an update on the NERC CEO. The announcement, agenda, and list of attendees are attached as **Exhibits A, B, and C** respectively.

### **NERC Antitrust Compliance Guidelines**

David Cook, vice president and general counsel, directed participants' attention to the NERC Antitrust Compliance Guidelines included in the agenda.

### **Executive Session**

Chairman Anderson reported that, as is its custom, the board met in executive session before the open meeting, without the chief executive officer present, to review management activities.

### **Consent Agenda**

On motion of President and CEO Rick Sergel, the board approved the consent agenda, as follows:

### **Minutes**

The board approved the following draft minutes (**Exhibit D**):

- [August 5, 2009](#)
- [October 16, 2009](#)

### **Committee Membership Appointments and Changes**

The board approved the proposed appointments and changes to the membership of the standing committees. The board also approved the proposed change to the OC committee charter. (**Exhibit E.**)

### **Future Meetings**

The board approved November 3–4, 2010 (W–Th) in Atlanta, GA as a future meeting date and location, as well as noting the May 2010 meeting dates and location have been changed to May 11-12, 2010 in Baltimore, MD.

### **President’s Report**

Rick Sergel’s last report focused on the reality of the necessity of ensuring the reliability of the bulk power system. As stated in his report: “The loss of the reliable delivery of electricity to our homes and businesses has got to be near the top—and I would argue above the loss of any of our other critical infrastructures.”

Mr. Sergel noted that at a very basic level, we rely on electricity-dependent technology to communicate, to learn, to work, and to play. Electricity enables national security, mobility, health care, finance, manufacturing and entertainment. It is so engrained into our way of life that we take it for granted at every turn. We are way beyond the light bulb.

Further, Mr. Sergel stated: “The progress of society has been possible because of your demonstrated ability to keep the lights on, all day, every day. You have operated the system reliably for decades, and there is no doubt in my mind that we can continue to do so for many years to come. You are the victims of your own success.”

Mr. Sergel then addressed the next task, which is to appropriately identify the next list of issues that must be addressed. Issues such as CIP-002—the identification of critical assets and critical cyber assets across the system, as well as transmission siting, climate legislation, the integration of variable generation, “smart” grid, workforce issues, and reactive power.

Mr. Sergel ends his report with this thought:

It is my vision that this organization would continue to provide leadership and take responsible positions on the many issues facing our industry in the months and years to come. The self-regulatory model is an incredibly powerful concept. Don’t lose sight of what we’ve built together over the past four years. We are able to do things at NERC that no other organization can do—we have the capacity to build consensus within an incredibly diverse industry. We have the support of and access to literally thousands of experts across North America. We’ve developed an independent voice and a high degree of credibility with policy makers and the media. When NERC speaks, people listen.

Stay true to the mission of ensuring reliability. Build and operate a system that continues to serve this organization’s true stakeholders—the people of North America—so they can continue to take us all for granted for many years to come.

Mr. Sergel’s complete report is attached as **Exhibit F**.

### **Status of 2009 Goals and Objectives**

Rick Sergel provided an update on the 2009 Goals and Objectives and suggested to the board that this be an ongoing agenda item at future meetings and that it be a parallel effort with the Member Representatives Committee so they may provide advice at their meetings and/or on calls as well. Chairman Anderson requested the Secretary note the suggestion.

## **Reliability Standards**

Maureen Long, standards process manager, gave a presentation on the Reliability Standards Program (**Exhibit G**) and presented the following items for board action.

## **Interpretations**

Following extended discussion of the several interpretations up for consideration, as well as the procedures for consideration of interpretations, on motion of Rick Sergel, the board adopted the following resolution:

WHEREAS, the NERC Board of Trustees has considered the record of development of a number of proposed interpretations of reliability standards, the discussion and recommendations from the November 4, 2009 conference on interpretations, and the recommendation of NERC management,

RESOLVED, that the NERC Board of Trustees approves the following proposed interpretations of Reliability Standards:

1. Interpretation of Requirement 1 of PRC-005-1
2. Interpretations of Requirement R3 of TOP-005-1 and Requirement R12 of IRO-005-1
3. Interpretation of Requirement R2 of CIP-007-1
4. Interpretation of Requirement R1.3.10 of TPL-002-0
5. Interpretation of Requirements R2 and R8 of MOD-001-1 and Requirements R5 and R6 of MOD-029-1;

FURTHER RESOLVED, that the NERC Board of Trustees provides the following guidance regarding interpretations and the interpretations process:

- a. In deciding whether or not to approve a proposed interpretation, the board will use a standard of strict construction and not seek to expand the reach of the standard to correct a perceived gap or deficiency in the standard;
- b. It is the expectation of the board (i) that when work on an interpretation reveals a gap or deficiency in a reliability standard, stakeholders will take prompt action to address the gap or deficiency in the standard and (ii) that the time and effort expended on the interpretation should be a relatively small proportion of the time and effort expended on addressing the gap or deficiency;
- c. Priority should be given to addressing deficiencies or gaps in standards that pose a significant risk to the reliability of the bulk power system — addressing the gaps and deficiencies identified in Reliability Standard PRC-005 should be given such priority, and the Standards Committee should report on its plans and progress in that regard at the board's February 2010 meeting;



- d. The Standards Committee should ensure that the comments by NERC staff and other stakeholders on the proposed interpretations are considered by the standard drafting team in addressing any identified gaps and deficiencies, with a report back to the board on the disposition of those comments;
- e. The number of registrants that might end up in non-compliance or the difficulty of compliance are not appropriate inputs to an interpretation process, although those inputs may well be appropriate considerations in a standard development process and development of an implementation plan;
- f. Requests for a decision on how a reliability standard applies to a registered entity's particular facts and circumstances should not be addressed through the interpretations process.

**Reliability Standards Development Procedure — Version 7**

Following a presentation by Maureen Long of proposed revisions to the NERC standards development procedure and discussion by the trustees, on motion of Rick Sergel, the board adopted the following resolution:

RESOLVED, that the NERC Board of Trustees approves the proposed revisions set forth in Version 7 of the Reliability Standards Development Procedure.

**Reliability Standards Development Plan: 2010-2012**

Following a presentation by Maureen Long of the revised Reliability Standards Development Plan and discussion by trustees, on motion of Fred Gorbet, the board adopted the following resolution:

RESOLVED, that the NERC Board of Trustees approves the proposed 2010-2012 Reliability Standards Development Plan.

The board also endorsed the work of the ad hoc task force considering a risk-based approach to standards, encouraged the task force to continue its work, and asked for a further report at the February 2010 board of trustees meeting.

**Project 2009-18 — Withdrawal of MISO Waivers**

Following a presentation by Maureen Long regarding the MISO waivers issue, on motion of Ken Peterson, the board adopted the following resolution:

WHEREAS, Reliability Standards INT-003-2 — Interchange Transaction Implementation and BAL-006-1 — Inadvertent Interchange contain certain waivers previously granted to the Midwest Independent System Operator; and

WHEREAS, the Midwest Independent System Operator has become a Balancing Authority and has stated it no longer needs those waivers; and

WHEREAS, it is now appropriate to withdraw those waivers by adopting revised Reliability Standards,

RESOLVED, that the NERC Board of Trustees approves the proposed Reliability Standards INT-003-3 — Interchange Transaction Implementation and BAL-006-2 — Inadvertent Interchange.

**Errata Change — FAC-010-2: WECC Regional Difference**

Following a presentation by Maureen Long regarding an error in a WECC regional reliability standard, on motion of Paul Barber, the board adopted the following resolution:

RESOLVED, that the NERC Board of Trustees approves the proposed errata change to the WECC Regional Difference, as set forth in Reliability Standard FAC-010-2.1 — System Operating Limits Methodology for the Planning Horizon.

**Status of Standards Projects**

Maureen Long provided an update of a number of significant reliability standards projects.

**Compliance and Certification Committee (CCC) Matters**

Mr. Clay Smith, Vice-Chair of the Compliance and Certification Committee provided a report and requested board approval of the following matters (**Exhibit H.**)

**CCC Annual Work Plan for 2010**

On motion of Paul Barber, the board approved the following resolution:

RESOLVED, that the NERC Board of Trustees approves the proposed Annual Work Plan for 2010 of the Compliance and Certification Committee.

**CCCPP-010 – Criteria for Annual Regional Entity Program Evaluation**

On motion of Jan Schori, the board approved the following resolution:

RESOLVED, that the NERC Board of Trustees approves proposed CCCPP-010 – Criteria for Annual Regional Entity Program Evaluation.

**Revision to CCCPP-007 – Monitoring Program for NERC’s Adherence to NERC’s Rules of Procedure for Organization Registration and Certification**

On motion of Tom Berry, the board approved the following resolution:

RESOLVED, that the NERC Board of Trustees approves the proposed revision to CCCPP-007 – Monitoring Program for NERC’s Adherence to NERC’s Rules of Procedure for Organization Registration and Certification.

### **Revisions to Rules of Procedure Section 500 and Appendix 5**

Following discussion among the trustees, on motion of Ken Peterson, the board approved the following resolution:

RESOLVED, that the NERC Board of Trustees approves the proposed revisions to Section 500 and Appendix 5 to the Rules of Procedure, provided, that the Executive Summary of Appendix 5 shall be further revised to include the following sentence at the end of the first paragraph:

Where a proposal for revisions to these processes comes to the Board of Trustees from sources other than the CCC, the Board of Trustees will seek the concurrence of the CCC before taking action on the proposal.

### **Revisions to NERC Rules of Procedure Sections 400, 700, 800, and 900 to Eliminate Reliability Readiness Program**

David Cook requested board approval of revisions to NERC Rules of Procedure Sections 400, 700, 800, and 900 to eliminate references to the Reliability Readiness Program.

**(Exhibit I.)** On motion of Janice Case, the board approved the following resolution:

WHEREAS, in NERC's 2009 business plan and budget NERC proposed, for the reasons stated there, to eliminate its Readiness Evaluation and Improvement Program ("Readiness Program"); and

WHEREAS, on July 16, 2009, the Federal Energy Regulatory Commission approved the proposed elimination of the Readiness Program; and

WHEREAS, in light of the elimination of the Readiness Program, on September 11, 2009, NERC posted for comment in accordance with the provisions of Section 1400 of the Rules of Procedure a proposal to remove the references to the Readiness Program from the Rules of Procedure and received comments on the proposal; and

WHEREAS, the board has determined it is appropriate to remove references to the discontinued Readiness Program from the Rules of Procedure,

RESOLVED, that Sections 400, 700, 800, 900, and Appendix 7 of the Rules of Procedure are revised as proposed in Agenda Item 8.

### **Southwest Power Pool, Inc. Bylaw Change**

David Cook reviewed and requested board approval of proposed changes to Southwest Power Pool, Inc's bylaws. **(Exhibit J.)** On motion of Fred Gorbet, the board approved the following resolution:

WHEREAS, on October 27, 2009, the Membership of Southwest Power Pool, Inc. ("SPP"), approved certain amendments to the SPP bylaws as set forth in Agenda Item 9 of the NERC Board of Trustees agenda for its November 5, 2009 meeting (the "Amendments"), in response to an order dated September 17, 2009 of the Federal Energy Regulatory Commission ("Commission"); and

WHEREAS, SPP has requested that NERC approve the Amendments and file them with the Commission for approval; and

WHEREAS, the NERC Board of Trustees finds that SPP followed appropriate procedures in adopting the Amendments and that the Amendments are consistent with SPP's obligations and responsibilities under the delegation agreement between NERC and SPP and otherwise meet the requirements set forth in 18 C.F.R. §39.10 of the Commission's regulations,

RESOLVED, that the NERC Board of Trustees approves the Amendments and directs that they be filed with the Commission for approval.

### **Transmission Forum**

David Cook reviewed and requested board approval of a resolution that terminated the formal relationship between NERC and the Transmission Forum. Terry Boston responded to questions from trustees. Following further discussion, on motion of Fred Gorbet, the board approved the following resolution:

WHEREAS, on September 22, 2009 the members of the Transmission Owners & Operators Forum ("Forum") adopted a resolution pursuant to Section 8 of the Transmission Owners & Operators Forum Charter to (i) terminate the Forum as of December 31, 2009, (ii) reform itself as the North American Transmission Forum, Inc., ("NATF") and (iii) authorize and request the transfer of Forum assets from NERC to NATF; and

WHEREAS, the NERC Board of Trustees has determined that it is appropriate to facilitate the changeover from the Forum to NATF; and

WHEREAS, it appears that a significant year-end cash surplus is projected for the Forum and that in light of this projected surplus and at the Forum's request NERC has advanced \$50,000 of Forum funds to the Forum in connection with the start up of NATF; and

WHEREAS, the four existing NERC employees who are dedicated to providing services to the Forum will be terminating their employment with NERC effective December 31, 2009, with all costs of such termination being recorded as Forum expenses;

RESOLVED, that upon the effective date of termination of the Forum the Chief Executive Officer or Chief Financial and Administrative Officer of NERC is authorized to transfer any positive balance in the Forum account to NATF, subject to the Chief Financial and Administrative Officer's determination that all existing and projected personnel, administrative, contractual and other expenses associated with Forum activities have been satisfied or otherwise appropriately reserved for, including reserves for any future claims or liabilities directly or indirectly related to the business activities of the Forum.

### **One-Year Extension of Regional Delegation Agreements**

David Cook reviewed and requested board approval of a one-year extension of Regional Delegation Agreements. On motion of Jim Goodrich, the board adopted the following resolution:

WHEREAS, the initial terms of the agreements between NERC and the Regional Entities by which NERC has delegated certain authority and responsibility to the Regional Entities currently expire in May 2010, as specified in section 11(b) of the respective agreements; and

WHEREAS, NERC and the Regional Entities have determined it is appropriate to consider and develop a number of changes to the currently effective delegation agreements and have begun a process to do so; and

WHEREAS, it will take an extended period of time to renegotiate the delegation agreements, obtain the approvals of the renegotiated agreements by the respective governing bodies of the Regional Entities and the NERC Board of Trustees, and file and obtain approval of the renegotiated agreements from the Federal Energy Regulatory Commission; and

WHEREAS, it is appropriate to extend the initial terms of the currently effective agreements, at their current terms and conditions, for an additional year to provide time to complete work on and obtain regulatory approval of the renegotiated agreements; and

WHEREAS, the Regional Entities have agreed to amendments to section 11(b) of their respective agreements to extend the initial terms of the currently effective agreements for an additional year, to May 2011,

RESOLVED:

- (1) that the NERC Board of Trustees approves amendments to section 11(b) of the delegation agreements with the Regional Entities to effect a one-year extension of the initial terms of such agreements, until May 2011, under the terms and conditions of the current agreements, and
- (2) that management shall file a request with the Federal Energy Regulatory Commission for approval of such amendments.

### **Creation of Additional Independent Trustee Position**

David Cook reviewed and requested board approval of a resolution creating an additional independent trustee position, to be effective at the February 2010 meeting. (**Exhibit K.**) On motion of Ken Peterson, the board adopted the following resolution (Sharon Nelson abstaining):

WHEREAS, on October 14, 2009, the Federal Energy Regulatory Commission approved and made effective a proposed amendment to the NERC bylaws adding Article III, Section 1a, to give the board the authority to add, by resolution, an additional independent trustee to the board; and

WHEREAS, a resolution adding an additional independent trustee must be adopted no later than December 1 of the year preceding the election of that trustee; and

WHEREAS, the board has determined it is in the best interests of the Corporation and its Members that an additional independent trustee be added to the board at the February 2010 meeting of the Member Representatives Committee,

RESOLVED, that pursuant to the authority of Article III, Section 1a of the NERC bylaws, the number of independent trustees on the board is increased from ten to eleven, to be effective with the election of trustees at the February 2010 meeting of the Member Representatives Committee;

FURTHER RESOLVED, that the Board of Trustees Nominating Committee is directed to include a nominee for that new independent trustee position in the report it sends to the Member Representatives Committee in advance of the February 2010 election.

### **CIPC Guideline on Critical Assets**

Barry Lawson, CIPC Chair, presented the CIPC Guideline on Critical Assets to the board for informational purposes and provided a brief overview (**Exhibit L**.)

### **Committee, Group, and Forum Reports**

#### **Compliance and Certification Committee**

Clay Smith, Vice-Chair provided the report for the CCC. Mr. Smith advised that the CCC will be providing a report to the board on NERC's self-certifications during 2009. He also stated that the CCC has created a task force to research the current reliability metrics activities and determine the CCC's need for involvement and that the CCC has participated in a CMEP audit.

#### **Critical Infrastructure Protection Committee**

Barry Lawson reported that since the last Board of Trustees meeting the CIPC approved the critical asset guideline and continued to work on scheduling an in-person meeting between the CIPC Executive Committee and the ESSG for this year but was unsuccessful and it will now be held in early 2010. At their December meeting CIPC will vote on the election of the CIPC Executive Committee, the final approval of a time stamping guideline, and on the critical cyber asset guideline and whether it's ready to send for full industry review and comment. Finally, the CIPC will be meeting with Oil and Natural Gas coordinating councils, as well as the Government Coordinating Councils.

### **Member Representatives Committee**

Chairman Steve Naumann reported to the board that the Member Representatives Committee (MRC) covered a number of major issues and priorities at its November 4 meeting. Also, the MRC elected new officers and for the first time the Chairman of the MRC is from Canada, Mr. Ed Tymofichuk. Mr. Naumann then took a moment to thank the Board of Trustees for their forbearance for the last year in trying to reach the same goals recognizing it was not always easy.

### **North American Energy Standards Board**

Michael Desselle thanked Gerry Adamski and Andy Rodriguez for their assistance in leading the industry collaborative effort on a couple NERC and NAESB joint development efforts for their 2010 annual standards planning which is currently underway. Mr. Desselle reported that NAESB is on schedule with the remaining FERC tasks and is coordinating those deliverables with FERC. NAESB has become significantly involved in Smartgrid and is very engaged in the development of business practices specifically on scheduling and pricing models. From the involvement in Smartgrid, NAESB has created two Smartgrid advisory committees the Strategic Steering Committee and the Critical Infrastructure Steering Committee.

Finally, Mr. Desselle announced that his term as NAESB Chair has been fulfilled and he introduces the incoming Chair, Mr. Ralph Cleveland. Chairman Anderson thanks Mr. Desselle for his service and the positive collaboration between the Board of Trustees and NAESB.

### **Operating Committee**

Chairman Sam Holeman reported that the OC is actively engaged in frequency activities and the analysis of the current state of frequency performance. The OC will be working with events analysis staff on any lessons learned in the area of frequency performance and will be discussing at their December meeting ways to get the technical lessons learned out quickly. Mr. Holeman reported that the Real-Time Application Phasor Measurement Units to Improve Reliability Taskforce has been established and a chair has been named. The OC will work with the PC to get liaison membership between the PC and this task force. The primary focus is to develop a report providing assessment of the current state in PMU implementation and then focus on short term improvements. Mr. Holeman and the OC expect an update at their December meeting and a first draft report out in early 2010. The OC is also working with the PC on the Smartgrid taskforce collaboration and establishing a liaison between the OC and this taskforce. OC is in the process of working with the Operating Reliability Subcommittee (ORS) on developing short term plans for the NERC management of reliability tools and is expecting a set of recommendations from the ORS at the December meeting. Lastly, the OC is actively engaged in the discussion on the standards interpretations process.

### **Personnel Certification Governance Committee**

The Personnel Certification Governance Committee provided a written report which is attached as **Exhibit M**.

### **Planning Committee**

Chairman Tom Burgess reported that the Planning Committee has been through the process of developing some very significant reports with the assistance from a wide array of volunteers and we wanted to express our appreciation for all the support and contributions. The PC is currently working on the Winter Assessment which was previewed at the prior day's meeting for board consideration. Mr. Burgess stated that the PC has initiated efforts with the Load Expectation Working Group to better consider locations within North America where there are energy constrained resources and how best to plan for those contributions; primarily hydro, solar and other type of resources.

The PC also made contributions in launching the Smartgrid taskforce and is supporting the collaboration of this taskforce with the OC.

Mr. Burgess discussed the Reliability Impacts of Climate Change Initiatives Task Force report and stated that this report is an important and complicated effort. The PC believes once this report is produced it will be the first of other reports that will be required to fully ascertain reliability implications of different forms of legislative constructs. Lastly, Mr. Burgess reviewed that much effort was put into metrics and for the first time metrics were integrated into the Long Term Reliability Assessment and seasonal assessments.

### **Regional Entity Management Group**

Chairman Gerry Cauley reported that the Regional Entity Management Group (REMG) and the Regions would like to identify areas they believe the ERO could and should focus in addressing risk. The first is the continuation of focus on a rigorous compliance and enforcement program; second, collectively with the Regions encourage compliance excellence in self reporting and self assessment and promoting compliance culture, and lastly, provide transparency in the compliance outcomes and ensure that these outcomes are fed back the Registered Entities to help them understand and learn what is expected.

Mr. Cauley also reported that the REMG believes that focus needs to be placed on the small and medium events and how do we analyze those and push those out to the Regions so that they are part of learning opportunities instead of just compliance opportunities.

Mr. Cauley expressed the REMG's appreciation of the delegation agreement discussion and in receiving clarity on the delegation agreements and addressing stakeholder issues. And lastly, Mr. Cauley addressed CIP and the filing of the CIP survey results in terms of critical assets; that the Regions have been and will continue to help the industry and NERC grapple with the issue and in determining what the expected outcome is.

### **Standards Committee**

Chairman Scott Henry reported that the Standards Committee (SC) received a letter dated October 1<sup>st</sup> from the Chairman requesting delivery at this meeting of a project plan which considers the role of NERC staff. After attending the Technical Conference on Interpretation of Standards, Mr. Henry stated that the SC would review and incorporate the information from this meeting and will plan to come back to board in February 2010 with any kind of recommendation to the Chairman's letter.



In reviewing the Three-Year Assessment the SC has identified two items for action; the first is the results-based standards and second is taking a look at the processes. The SC is working on both items expeditiously.

Mr. Henry brought to the attention of the board there being similar wording in the 2010 budget order that was within the 2009 budget order. NERC sought clarification of the wording within the 2009 budget order. Mr. Henry asked if NERC will need to seek clarification on the wording in the new budget order. Mr. Sergel responded with his understanding is if the clarification was sought previously and wording was same that clarification would not need to be sought again; however he will go back and determine if something was stated in a different way.

Lastly, Mr. Henry announced that his replacement has been elected and this will officially be his last meeting. He extends his appreciation to the board and stakeholders for all their support.

#### **Transmission Owners and Operators Forum**

The Transmission Owners and Operators Forum report was addressed earlier in the Agenda.

#### **Electricity Sector Steering Group**

Trustee Janice Case reported that the ESSG continuing their work on the charter to determine the appropriate roles between all the various committees that provide policy inputs and information on the whole area of cyber security issues. The ESSG will be holding a closed session meeting to discuss several sensitive items from Mike Assante. Also, the ESSG will continue to work on the meeting date with the CIPC and hope to have that scheduled in the early part of the year.

In closing, Ms. Case stated that the ESSG has provided a significant amount of input to NERC but most specifically for the upcoming HILF Workshop and that the ESSG will continue after the workshop to look at the report and assign next steps from there.

#### **FERC**

Joe McClelland commended Rick Sergel on his exemplary leadership and for his President's Reports, which he believes have consistently provided a succinct summary of where the industry is today. Mr. McClelland also expressed his appreciation for the Technical Conference on Interpretation of Standards.

#### **Board Committee Reports**

##### **Corporate Governance and Human Resources**

Chair Sharon Nelson reported the committee met via conference call on October 28, 2009 to review their fourth quarter of activities and in accordance with committee mandates the CGHRC and all board committees will complete self-assessments for 2009. The self-assessments will be structured the same as in 2008.

Ms. Nelson stated that the committee is working with the MRC leadership in developing an appropriate questionnaire to extend the self-assessment by the board to assessment by the MRC as well. As this will take considerable time it is an item that will be undertaken and continued by the incoming CGHRC Chair. The CGHRC also reviewed and approved changes to NERC's Code of Conduct; the principal change was with respect to the use of NERC's computer resources. The call ended with a Human Resources Activities report by Ms. Julie Morgan.

Following her review, Ms. Nelson moved to approve the Finance and Audit Committee and Technology Committee mandate revisions (**Exhibit N**), and the board approved the motion.

Ms. Nelson ended her report with commending Rick Sergel for his exemplary leadership.

### **Compliance**

Chairman Paul Barber provided a brief report, stating the focus since the last meeting has been compiling and filing the Omnibus package both of which were accomplished. Chairman Barber stated that the numbers reviewed at the Compliance Committee meeting did not reflect this filing but the new numbers received for October would incorporate the Omnibus filing. The Compliance Committee will review these numbers in great detail and continue to move things forward.

### **Finance and Audit**

Chairman Bruce Scherr reported that during the Finance and Audit Committee (FAC) open session on November 2 the committee:

- Reviewed a proposed change to the FAC Mandate to transfer responsibility for the annual review of the corporation's computer systems to the Technology Committee. The FAC will continue to have oversight of the financial aspects of the corporation's computer systems through its oversight of the annual business plan and budget.
- The Committee reviewed and approved the 3rd quarter statement of activities of the corporation and the Regional Entities. Both NERC and the Regional Entities have been making efforts to control and manage costs and have various initiatives underway to review further opportunities to improve efficiency and reduce costs. On motion by Mr. Scherr, the board approved the 3rd quarter statement of activities.
- The Committee then reviewed a summary of the various approaches to working capital by NERC and the Regional Entities, including some supplemental background information. NERC management and the Committee will continue to review these approaches in the future, recognizing that they are primarily driven by the specific cash flow needs of each entity.

- The Committee held a discussion regarding NERC's cash management practices. NERC currently maintains all of its cash in a sweep account with PNC Bank which earns very little interest. After some discussion the Committee authorized management to invest funds in treasuries, pending the development of a formal investment policy which management will prepare and present to the Committee and the Board at their meeting in February.
- The Committee reviewed a summary of WECC's funding requests to the US DOE for a major synchrophaser project and planning study. The Board materials include a summary of these applications. The first portion of the grant application, which was recently approved by the DOE, consists of a total of \$107.8 million, with the DOE funding \$53.9 Million and industry funding the balance. The second is a request for \$16.4 Million to undertake an interconnection-level transmission analysis and planning study. This application is currently pending at the DOE. Once WECC receives all of its necessary approvals it will be preparing an amendment to its 2010 Business Plan and Budget and seeking approval of that amendment by this Board and the FERC. The amendment should not affect assessments. No action is requested of the Board at this time. However, it's likely WECC may request budget amendment approval on an expedited basis and prior to the February meeting.
- The Committee then reviewed a summary of FERC's approval of the 2010 business plans and budgets for NERC and the Regional Entities, including some following up filing requirements which NERC staff and the staff of the Regional Entities are working on. FERC found the business plan to provide sufficient detail to determine whether each statutory area was appropriately funded and found the costs reasonable and equitably allocated among end users. FERC also commended NERC and the Regions for the ongoing efforts to standardize accounting methodologies.
- NERC staff and the Regional Entities will continue to work closely to look for additional ways to improve efficiency and control costs, with due recognition of their responsibilities in helping to ensure the reliability of the bulk power system. This includes work that the Regional Entities are doing in connection with the review and refinement of the delegation agreements.
- Mike Walker also reminded the committee that NERC management is continuing to evaluate resource needs related to 706B requirements, TFE processing, Situational Awareness and Cyber Security as the nature and timing of additional program requirements become more certain. Management will report back to the FAC at its next meeting in terms of any potential incremental budget impacts and assuming there are any, alternative ways to address them. He also requested that each of the NERC committees also consider the budget impacts of various initiatives they consider to make sure the nature and timing of these impacts are appropriately considered given the level of funding that has been authorized for 2010 and existing resource demands.

- The final item the Committee reviewed concerned a recommendation on the retention of a new outside auditor. The Committee provided guidance and authorized to management to proceed with the selection of a firm. The auditor will also be reviewing, making recommendations and assisting NERC on its internal controls functions.

### **Technology**

Chairman Jim Goodrich reported that the committee met via conference call on October 27, 2009 and received an update on the Smartgrid activities including the Department of Energy's recent Smartgrid awards and NERC's formation of a Smartgrid taskforce. The Committee also received an update on the North American Synchro Phasor Initiative's activities and learned of the formation of a new operating committee working group that is tasked to improve the pace of the Synchro Phasor implementation across the industry.

Chairman Goodrich stated that the committee is encouraged by the many awards the Synchro Phasor Initiative received from the Department of Energy.

The Committee also provided feedback to NERC staff on its proposal for a new Reliability Tools Division of NERC and the committee offered their strong support in moving forward with this division.

Lastly, the Committee approved the revision to the Committee's mandate as referenced in the CGHRC report.

### **Nominating**

Chairman Ken Peterson reported that the Committee hired Bob Shields of Spencer and Stuart to develop a list of candidates to fill the two open Trustee seats and further stated that Mr. Shields compiled a very long list through input from stakeholders and various contacts. The Nominating Committee reviewed and developed a short list of candidates for interviews to be conducted in early December. The Committee feels they have an excellent slate of candidates for the open trustee positions to be filled in February.

### **Closing Remarks**

Chairman Anderson on behalf of the board expressed appreciation to Sharon Nelson and Rick Sergel for their tenure on the board and offered best wishes in their future endeavors.

### **Adjournment**

There being no further business, Chairman Anderson terminated the meeting at 11:50 a.m.

Submitted by,



David N. Cook  
Corporate Secretary

**Standing Committee Membership Changes**

**Action Required**

Approve the following committee membership appointments and changes.

**Planning Committee**

A special election was initiated to replace two resigning members and to seek members for all other vacancies. Nominations were open from December 17, 2009 through January 13, 2010. A follow-up election was unnecessary because two or more nominations were not received for any vacancies; therefore, the persons who were nominated were deemed elected.

Approvals are requested for the following new Planning Committee members:

<u>Planning Committee Member</u>	<u>Sector/Term Expiration</u>
Mr. Richard P. Anderson, P.E. Electrical Engineering Manager Fayetteville (NC) Public Works Department	State/municipal 2011
Mr. Richard M. Pendergrass Manager, Power and Operations Planning Bonneville Power Administration	Federal or provincial utility/ Federal power marketing agency 2011

**Compliance and Certification Committee**

- RE-WECC — Steven C. Cobb, Manager of Electric Reliability Compliance (Salt River Project)



### Standing Committee Charter Changes

**Action Required**

Approve Operating Committee (OC) and Planning Committee (PC) charter changes.  
**(Attachments 1 and 2, respectively)**

**Background**

Proposed changes to the charters are noted below. Both committees approved these changes at their December 2009 meetings. With these changes, the Planning Committee and Operating Committee charters will have the same provisions in these areas.

PC Charter Section Changed	OC Charter Section Changed	Reason for Change
Section 2.4.c - Readiness Evaluations	None (was previously changed)	Deleted this section since NERC has eliminated the program.
Section 3.4.e	Section 3.4.e	Corrected typo.
Section 3.4.f	Section 3.4.f	Newly elected members now begin their terms when the election results are announced, pending board approval.
Section 3.5	Section 3.5	Deleted language that stated terms of new members begin when they are seated at the first meeting in September.
Section 3.6	Section 3.6	Newly elected or appointed members who join the committee mid-term are committee members as soon as they are elected or appointed.
None (was previously changed)	Section 5.1	Made the OC officers' terms consistent with the PC charter language. They serve from the end of the June meeting at which they are elected until the end of the June meeting two years later.
Section 5.4	Section 5.4	Clarified that newly elected officers assume their duties pending board approval.
Appendix 4 – Reliability Guidelines Approval Process	Appendix 3 – Reliability Guidelines Approval Process	Added minor clarifying language.





# NERC

NORTH AMERICAN ELECTRIC  
RELIABILITY CORPORATION

## Operating Committee Charter

February 16, 2010

Deleted: August 5, 2009

to ensure  
the reliability of the  
bulk power system

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## Section 1. Purpose

The Operating Committee's mission is to provide the ERO (stakeholders, Board of Trustees, and staff) with the collective and diverse opinions from the experts in interconnected systems operation to help the industry arrive at informed decisions.

## Section 2. Functions

1. **General forum.** Provides a general forum for aggregating ideas and interests regarding the operations of the interconnected bulk power systems in North America.
2. **Advice and recommendations.** Provides NERC (stakeholders, Board of Trustees, and staff) with advice, recommendations, and the collective and diverse opinions on matters related to interconnected operations to help the industry arrive at informed decisions. Issue reliability guidelines in accordance with the process described in Appendix 3.
3. **Support for other NERC programs.** Provide technical advice and subject matter expert support to each of the NERC program areas, and serve as a forum to integrate the outputs of each NERC program area.
  - a. **Standards.**
    - **Provide opinions.** Provide the committee's majority and minority opinions to the industry on NERC's standards as those standards are drafted, posted for ballot, and presented to the board of trustees for implementation.
    - **Help prioritize standards.** Help the Standards Committee prioritize those standards that are in the drafting queue.
  - b. **Compliance.** Review quarterly and annual compliance reports for trends and suggest new or different types of compliance monitoring based on a technical review of system performance trends or as a result of compliance investigations.
  - c. **Reliability assessments and performance analysis.** Review reliability assessments and recommend topics that need additional investigation. These include:
    - Future adequacy
    - Event analysis
    - Benchmarking
  - d. **Personnel training and certification.** Recommend to the Personnel Certification Governance Committee the types of operating personnel that should be certified.
  - e. **Situation awareness.** Review and recommend control, monitoring, and visualization tools for system operators.
4. **Approve the following documents and procedures:**
  - f. Reliability Coordinator plans.
  - g. Market operations plans that are a part of the Reliability Coordinator plans.

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h. Field test procedures, and the commencement and end of field tests to make sure those tests are “safe and effective.”

i. The technical content of the NERC Reliability Functional Model.

**5. Opinions and interpretations.** Provide technical opinions at the industry stakeholders’ request on operating reliability concepts, philosophies, and standards.

### **Section 3. Membership**

1. **Goals.** The Operating Committee provides for balanced decision making by bringing together a wide diversity of opinions from industry experts with outstanding technical knowledge and experience in the area of interconnected systems operation reliability.

2. **Expectations.** Operating Committee voting members are expected to:

- a. Bring subject matter expertise to the Operating Committee
- b. Be responsible for operating reliability within their organization
- c. Attend and participate in all Operating Committee meetings
- d. Express their own opinions, as well as the opinions of the sector they represent, at committee meetings
- e. Discuss and debate interests rather than positions
- f. Complete committee assignments
- g. Inform the secretary of any changes in their status that may affect their eligibility for committee membership. Failure to do so in a timely manner may result in the member’s dismissal by the chairman.

3. **Representation.** See Appendix 1, “Committee Members”

- a. Committee members may, but need not be, NERC members. A non-voting representative must meet the requirements defined in Appendix 1. Voting members, with the exception of sector 11 that appoints its members, may hold a position in any sector in which they would be eligible for NERC membership, even if they are a NERC member in another sector. Questions regarding eligibility for committee membership will be referred to the NERC general counsel for final determination of status.
- b. To ensure adequate Canadian representation, the membership to the committee may be increased so that the number of Canadian voting members is equal to the percentage of the net energy for load (NEL) of Canada to the total NEL of the United States and Canada, times the total number of voting members on the committee, rounded to the next whole number.

4. **Selection.** With the exception of sector 11, NERC sector members will annually elect voting committee members to committee sectors corresponding to their NERC sector under an election process that is open, inclusive, and fair. The selection process will be completed in time for the secretary to send the committee membership list to the board for its approval

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at the board's August meeting so that new committee members may be seated at the September meeting.

- a. Un-nominated voting member positions will remain vacant until the next annual or special election. If a vacancy in an elected sector is created by a resignation or other cause, a special election will be held unless it would coincide with the annual election process. Special elections shall follow the same procedure as the annual election.
- b. Members may not represent more than one committee sector.
- c. A particular organization, including its affiliates, may not have more than one member on the committee.
- d. If additional Canadian members are added, no more than one additional Canadian voting member shall be selected from a sector unless this limitation precludes the addition of the number of additional Canadian voting representatives required by Section 3.3.b. In this case, no more than two additional Canadian voting members may be selected from the same sector.
- e. The secretary will monitor the committee selection process to ensure that membership specifications are met.
- f. After the secretary announces the election results, the newly elected members will serve on the committee pending approval by the board. The secretary will submit the newly elected members' names to the board for approval at the board's next regular meeting.

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5. **Terms.** Members' terms are staggered, with one-half of the members' terms expiring each year. Except for the cases described below, a member's term is two years and will commence as stated above and serve two years. Members may be re-elected for subsequent terms. Shorter terms may be required for several reasons:

Deleted: on the September first meeting following the member's selection pursuant to Section 3.4 and continue until the September meeting August 31

- a. If two members are simultaneously selected to a sector that did not have any existing members, in order to stagger their terms, one member will be assigned a one-year term and the second member will be assigned a two-year term using a fair and unbiased method.
- b. If a member replaces a departed member between elections, the new member will assume the remaining term of the departed member.
- c. If a member fills a vacant member position between elections, his/her term will end when the term for that vacant position ends.

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6. **Resignations, Vacancies, and Nonparticipation**

- a. Members who resign will be replaced for the time remaining in the member's term. Members will be replaced pursuant to Section 3.4, officers will be replaced pursuant to Section 5, and executive committee members will be replaced pursuant to Section 7.

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- b. Newly elected or appointed members will serve on the committee pending approval by the board. The secretary will submit new members' names to the board for approval at the board's next regular meeting.
  - c. The committee chairman will contact any member who has missed two consecutive meetings (even if the member has sent a proxy) to 1) seek a commitment to actively participate or 2) ask the member to resign from the committee.
  - d. The chairman may remove any member who has missed two consecutive meetings (even with a proxy).
7. **Proxies.** A member of the committee may give a proxy only to a person who:
- a. Meets the member's eligibility requirements (see Section 3.3a) and is not affiliated with the same organization as another committee member (see Section 3.4c), or
  - b. Is not another committee member, unless that committee member would represent the proxy's sector instead of his/her own sector at the meeting.

Deleted: <#>The secretary will submit the new member's name to the board for approval at the board's next regular meeting.¶  
<#>The committee may approve the new member on an interim basis at the committee's next meeting.¶

To permit time to determine a proxy's eligibility, proxies must be submitted to the secretary in writing at least one week prior to the meeting (electronic transmittal is acceptable). Any proxy submitted after that time will be accepted at the chairman's discretion, provided that the chairman believes the proxy meets the eligibility requirements.

#### Section 4. Meetings

See Appendix 2, "Meeting Procedures." Unless stated otherwise, the Operating Committee will follow Roberts Rules of Order, Newly Revised.

1. **Quorum.** The quorum necessary for the transaction of business (i.e., formal actions) at meetings of the Committee is two-thirds of the voting members currently on the committee roster (i.e., does not count vacancies). The committee may engage in discussions without a quorum present.
2. **Voting.** Except for sector 11, each voting member of the committee shall have one vote on any matter coming before the committee that requires a vote. Sector 11 voting is specified in Appendix 1. Actions by members of the Committee shall be approved upon receipt of the affirmative vote of 2/3 of the voting members of the Committee present and voting, in person or by proxy, at any meeting at which a quorum is present. The chairman and vice chairman may vote. Additional voting guidelines are in Appendix 2.
3. **Antitrust Guidelines.** All persons attending or otherwise participating in the Committee meeting shall act in accordance with NERC's Antitrust Compliance Guidelines at all times during the meeting. A copy of the NERC antitrust statement shall be included with each meeting agenda.
4. **Open Meetings.** NERC committee meetings shall be open to the public, except as noted below under Confidential Sessions. Although meetings are open, only voting members may offer and act on motions.

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5. **Confidential Sessions.** The chairman of a committee may limit attendance at a meeting or portion of a meeting, based on confidentiality of the information to be disclosed at the meeting. Such limitations should be applied sparingly and on a non-discriminatory basis as needed to protect information that is sensitive to one or more parties. A preference, where possible, is to avoid the disclosure of sensitive or confidential information so that meetings may remain open at all times. Confidentiality agreements may also be applied as necessary to protect sensitive information.

## Section 5. Officers

1. **Terms and conditions.** At its first June meeting and every two years thereafter, the committee shall select a chairman and vice chairman from among its voting members by majority vote of the members of the committee to serve as chair and vice chair of the committee from the end of that June meeting until the end of the June meeting two years later. The newly selected chairman and vice chairman shall not be representatives of the same sector.

**Deleted:** to serve during the period July 1 through June 30 of the following two years, provided that:

a. Pending approval by the board, the newly elected officers will assume their duties as stated above. The secretary will submit the names of the elected officers to the chair of the board for approval at the board's next regular meeting.

b. The chairman and vice chairman, upon assuming such positions, shall cease to act as representatives of the sectors that elected them as representatives to the Committee and shall thereafter be responsible for acting in the best interests of the members as a whole.

**Deleted:** The secretary will submit the elected officers to the chairman of the board for approval.

2. **Selection.** The committee selects officers using the following process. The chairman is selected first, followed by the vice chairman.

1. The nominating subcommittee will present its recommended candidate.
2. The chairman opens the floor for nominations.
3. After hearing no further nominations, the chairman closes the nominating process.
4. The committee will then vote on the candidate recommended by the nominating subcommittee, followed by the candidates nominated from the floor in the order in which they were nominated. The first candidate to garner the majority of the committee's votes will be selected.
5. If the committee nominates one person, that person is automatically selected as the next chairman.
6. If the committee nominates two or more persons, and none receive a majority of the Committee's votes, then the secretary will distribute paper ballots for the members to mark their preference.
7. The secretary will collect the ballots. If the Committee nominates three or more candidates, then the winner will be selected using the Instant Runoff Process. (Explained in Roberts Rules of Order)

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## Section 6. Subcommittees

1. **Appointing subgroups.** The Operating Committee may appoint technical subcommittees, task forces, and working groups as needed.
2. **Nominating subcommittee.** At the first regular meeting following the selection of a new committee chairman, the chairman will nominate, for the committee's approval, a slate of five committee members from different sectors to serve as a nominating subcommittee. The subcommittee will:
  - a. Recommend candidates for the committee's chairman and vice chairman, and
  - b. Recommend candidates for the executive committee's four "at large" members.

## Section 7. Executive Committee

1. **Authorization.** The executive committee is authorized to act between regular meetings of its parent committee. However, the executive committees may not reverse its parent committee's decisions.
2. **Membership.** The Committee will elect an executive committee of six members, all from different sectors, as follows:
  - Chairman
  - Vice-chairman
  - Four at-large members from different sectors nominated by the nominating subcommittee.
3. **Election Process.** The Nominating Subcommittee will present its slate of candidates for the four "at large" members.
  - The chairman opens the floor for additional nominations.
  - If the Committee members nominate additional candidates, then the secretary will distribute paper ballots for the members to list their top four candidates.
  - The four candidates who receive the most votes will be elected, provided that no two candidates may be from the same sector.
4. **Terms.** The executive committee will be replaced every two years, with the chairman and vice chairman replaced at a June meeting and the at-large members replaced at a September meeting.

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## Appendix 1 – Committee Members

Name	Definition	Members
<b>Voting Members</b>		
1. Investor-owned utility	This sector includes any investor-owned entity with substantial business interest in ownership and/or operation in any of the asset categories of generation, transmission, or distribution. This sector also includes organizations that represent the interests of such entities.	2
2. State/municipal utility	This sector includes any entity owned by or subject to the governmental authority of a state or municipality, that is engaged in the generation, delivery, and/or sale of electric power to end-use customers primarily within the political boundaries of the state or municipality; and any entity, whose members are municipalities, formed under state law for the purpose of generating, transmitting, or purchasing electricity for sale at wholesale to their members. This sector also includes organizations that represent the interests of such entities.	2
3. Cooperative utility	This sector includes any non-governmental entity that is incorporated under the laws of the state in which it operates, is owned by and provides electric service to end-use customers at cost, and is governed by a board of directors that is elected by the membership of the entity; and any non-governmental entity owned by and which provides generation and/or transmission service to such entities. This sector also includes organizations that represent the interests of such entities.	2
4. Federal or provincial utility/Federal Power Marketing Administration	This sector includes any U.S. federal, Canadian provincial, or Mexican entity that owns and/or operates electric facilities in any of the asset categories of generation, transmission, or distribution; or that functions as a power marketer or power marketing administrator. This sector also includes organizations that represent the interests of such entities. One member will be a U.S. federal entity and one will be a Canadian provincial entity.	2
5. Transmission dependent utility	This sector includes any entity with a regulatory, contractual, or other legal obligation to serve wholesale aggregators or customers or end-use customers and that depends primarily on the transmission systems of third parties to provide this service. This sector also includes organizations that represent the interests of such entities.	2
6. Merchant electricity generator	This sector includes any entity that owns or operates an electricity generating facility that is not included in an investor-owned utility's rate base and that does not otherwise fall within any of sectors (i) through (v). This sector includes but is not limited to cogenerators, small power producers, and all other non-utility electricity producers such as exempt wholesale generators who sell electricity at wholesale. This sector also includes organizations that represent the interests of such entities.	2
7. Electricity marketer	This sector includes any entity that is engaged in the activity of buying and selling of wholesale electric power in North America on a physical or financial basis. This sector also includes organizations that represent the interests of such entities.	2

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Operating Committee Charter

Name	Definition	Members																									
<b>Voting Members</b>																											
8. Large end-use electricity customer	This sector includes any entity in North America with at least one service delivery taken at 50 kV or higher (radial supply or facilities dedicated to serve customers) that is not purchased for resale; and any single end-use customer with an average aggregated service load (not purchased for resale) of at least 50,000 MWh annually, excluding cogeneration or other back feed to the serving utility. This sector also includes organizations that represent the interests of such entities.	2																									
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11. Regional reliability organization	This sector includes any regional reliability organization as defined in Article I, Section 1, of the Bylaws of the corporation. In aggregate, this sector will have voting strength equivalent to two members. The voting weight of each regional member's vote will be set such that the sum of the weight of all available regional reliability organizations members' votes is two votes.	2																									
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Officers	Chairman and Vice Chairman	2																									
<b>Total Voting Members</b>		<b>26</b>																									

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Name	Definition	Members
<b>Non-Voting Members<sup>1</sup></b>		
Government representatives	This sector includes any federal, state, or provincial government department or agency in North America having a regulatory and/or policy interest in wholesale electricity. Entities with regulatory oversight over the Corporation or any regional entity, including U.S., Canadian, and Mexican federal agencies and any provincial entity in Canada having statutory oversight over the Corporation or a regional entity with respect to the approval and/or enforcement of reliability standards, may be nonvoting members of this sector.	
	United States federal government	2
	Canadian federal government	1
	Provincial government	1
Secretary	The committee secretary will be seated at the committee table	1
Subcommittee Chairmen	The chairmen of the subcommittees will be seated at the committee table.	

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<sup>1</sup> Industry associations and organizations and other government agencies in the U.S. and Canada may attend meetings as non-voting observers.

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## Appendix 2 – Meeting Procedures

### Section 1. Voting Procedures for Motions

1. The default procedure is a voice vote.
2. If the chairman believes the voice vote is not conclusive, he may call for a show of hands.
3. The chairman will not specifically ask those who are abstaining to identify themselves when voting by voice or a show of hands.
4. The committee may conduct a roll-call vote in those situations that need a record of each member's vote.
  - The committee must approve conducting a roll call vote for the motion.
  - The secretary will call each member's name.
  - Members answer "yes," "no," or "present" if they wish to abstain from voting.

### Section 2. Minutes

1. Meeting minutes are a record of what the committee did, not what its members said.
2. Minutes should list discussion points where appropriate, but should usually not attribute comments to individuals. It is acceptable to cite the chairman's directions, summaries, and assignments.
3. Do not list the person who seconds a motion.
4. Do not record (or even ask for) abstentions.

### Section 3. Minority Opinions

All Committees members are afforded the opportunity to provide alternative views on an issue. The meeting minutes will provide an exhibit to record minority opinions. The chairman shall report both the majority and any minority views in presenting results to the Board of Trustees.

### Section 4. Personal Statements

The minutes will also provide an exhibit to record personal statements.

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## Appendix 3 – Reliability Guidelines Approval Process

### 1. Reliability Guidelines

*Reliability guidelines* are documents that suggest approaches or behavior in a given technical area for the purpose of improving reliability. Reliability guidelines are not binding norms or mandatory requirements. Reliability guidelines may be adopted by a responsible entity in accordance with its own facts and circumstances.<sup>2</sup>

### 2. Approval of Reliability Guidelines

Because reliability guidelines contain suggestions that may result in actions by responsible entities, those suggestions must be thoroughly vetted before a new or updated guideline receives approval by a technical committee. The process described below will be followed by the Operating Committee:

- a. New/updated draft guideline approved for industry posting. The Operating Committee approves for posting for industry comment the release of a new or updated draft guideline developed by one of its subgroups or the committee as a whole.
- b. Post draft guideline for industry comment. The draft guideline is posted as “for industry-wide comment” for forty-five (45) days. If the draft guideline is an update, a redline version against the previous version must also be posted.
- c. Post industry comments and responses. After the public comment period, the Operating Committee will post the comments received as well as its responses to the comments. The committee may delegate the preparation of responses to a committee subgroup. Deleted: s
- d. New/updated guideline approval and posting. A new or updated guideline which considers the comments received, is approved by the Operating Committee and posted as “Approved” on the NERC Web site. Updates must include a revision history and a redline version against the previous version. Deleted: sponsoring technical  
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- e. Guideline updates. After posting a new or updated guideline, the Operating Committee will continue to accept comments from the industry via a Web-based forum where commenters may post their comments.
  - i. Each quarter, the Operating Committee will review the comments received. At any time, the Operating Committee may decide to update the guideline based on the comments received or on changes in the industry that necessitate an update.
  - ii. Updating an existing guideline will require that a draft updated guideline be approved by the Operating Committee in step “a” and proceed to steps “b” and “c” until it is approved by the Operating Committee in step “d.” Deleted: ¶

<sup>2</sup> Standards Committee authorization is required for a reliability guideline to become a supporting document that is posted with or referenced from a NERC Reliability Standard. See Appendix 3A in the NERC’s *Rules of Procedure* under “Supporting Documents.” Deleted: August 5, 2009

# NERC

NORTH AMERICAN ELECTRIC  
RELIABILITY CORPORATION

## Planning Committee Charter

February 16, 2010

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Deleted: 2009

to ensure  
the reliability of the  
bulk power system

116-390 Village Blvd., Princeton, NJ 08540  
609.452.8060 | 609.452.9550 fax  
www.nerc.com

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## Section 1. Purpose

The Planning Committee proactively supports the NERC mission and the several NERC program areas by carrying out a broad array of functions and responsibilities focused on the reliable planning and assessment of interconnected bulk power systems.

## Section 2. Functions

1. **General forum.** Provides a general forum for aggregating ideas and interests regarding the reliable planning and assessment of the interconnected bulk power systems in North America.
2. **Advice and recommendations.** Provides NERC (stakeholders, Board of Trustees, and staff) with advice, recommendations, and the collective and diverse opinions on matters related to bulk power system planning, reliability, and adequacy to help the industry arrive at informed decisions. Issue reliability guidelines in accordance with the process described in Appendix 4.
3. **Support to the Reliability Assessment and Performance Analysis Program.** Provides technical support, guidance, and advice to NERC's Reliability Assessment and Performance Analysis Program, which includes:
  - a. **Reliability Assessments**
    - Provide input on seasonal, long-term, and special reliability assessment reports, including reliability issues and trends to be addressed in these reports.
    - Review and comment on draft reliability assessment reports.
    - Endorse the approval by the NERC board of reliability assessment reports.
  - b. **Events Analysis and Information Exchange**
    - Review and discuss the results of individual event investigations and lessons learned as well as long-term trends.
    - Recommend actions to other NERC programs (standards, compliance, readiness, training, etc.) based on lessons learned and trends from event investigations.
    - Support information exchange within the industry on lessons learned from event investigations, including the issuance of event notifications, significant event reports, and trends in events analysis.
  - c. **Reliability Metrics and Benchmarking**
    - Provide input to the Reliability Metrics and Benchmarking Program.
    - Support the development and improvement of NERC's key reliability metrics.
4. **Support to other NERC programs.** Provides technical advice and subject matter expert support to each of the other NERC programs, and serve as a forum to integrate the outputs of these programs, specifically:

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a. **Standards.**

- Provide the committee’s majority and minority opinions to the industry on NERC’s standards as those standards are drafted, posted for ballot, and presented to the board for implementation.
- Help the Standards Committee prioritize those standards that are in the drafting queue.
- Provide technical opinions and interpretations of standards at the request of industry stakeholders or the NERC board.

b. **Compliance.** Review quarterly and annual compliance reports for trends and suggest new or different types of compliance monitoring based on a technical review of system performance trends or as a result of investigations.

5. **Documents and procedures.** Develop and maintain documents and procedures related to the reliable planning and assessment of interconnected bulk power systems, including but not limited to:

- a. **Functional model.** Approve the technical content of the NERC Reliability Functional Model.
- b. **Reference documents.** Technical reference documents and guidelines on matters including: system modeling and model validation, system static and dynamic analysis, system protection and control, load forecasting, resource adequacy assessment, and reliability data requirements.
- c. **Field test procedures.** Field test procedures for prospective reliability standards.

6. **Opinions and guidance.** Provide technical opinions and guidance on planning reliability concepts and philosophies.

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### Section 3. Membership

1. **Goals.** The Planning Committees provides for balanced decision making by bringing together a wide diversity of opinions from industry experts with outstanding technical knowledge and experience in the area of interconnected systems planning reliability and reliability assessment.

2. **Expectations.** Planning Committee voting members are expected to:

- a. Bring subject matter expertise to the Planning Committee
- b. Be knowledgeable about planning reliability and reliability assessment
- c. Attend and participate in all Planning Committee meetings
- d. Express their opinions as well as the opinions of the sector they represent at committee meetings.
- e. Discuss and debate interests rather than positions
- f. Complete committee assignments

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- g. Inform the secretary of any changes in their status that may affect their eligibility for committee membership. Failure to do so in a timely manner may result in the member's dismissal by the chair.

3. **Representation.** See Appendix 1, "Committee Members."

- a. Committee members may, but need not be, NERC members. A non-voting representative must meet the requirements defined in Appendix 1. Voting committee members (except for sector 11 that appoints its members) may hold a position in any sector in which they would have been eligible for NERC membership, even if they are a NERC member in another sector. Questions regarding eligibility for committee membership will be referred to the NERC general counsel for final determination of status.
- b. To ensure adequate Canadian representation, the membership to the committee may be increased so that the number of Canadian voting members is equal to the percentage of the net energy for load (NEL) of Canada to the total NEL of the United States and Canada, times the total number of voting members on the committee, rounded to the next whole number.

4. **Selection.** Except for sector 11, NERC sector members will annually elect voting committee members to committee sectors corresponding to their NERC sector under an election process that is open, inclusive, and fair. The selection process will be completed in time for the secretary to send the committee membership list to the board for its approval at the board's August meeting so that new committee members may be seated at the September meeting.

- a. Un-nominated voting member positions will remain vacant until the next annual or special election. If a vacancy in an elected sector is created by a resignation or other cause, a special election will be held unless it would coincide with the annual election process. Special elections shall follow the same procedure as the annual election.
- b. Members may not represent more than one committee sector.
- c. A particular organization, including its affiliates, may not have more than one member on the committee.
- d. If additional Canadian members are added, no more than one additional Canadian voting member shall be selected from a sector unless this limitation precludes the addition of the number of additional Canadian voting representatives required by Section 3.3.b. In this case, no more than two additional Canadian voting members may be selected from the same sector.

- e. The secretary will monitor the committee selection process to ensure that membership specifications are met.

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- f. After the secretary announces the election results, the newly elected members will serve on the committee pending approval by the board. The secretary will submit the newly elected members' names to the board for approval at the board's next regular meeting.

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5. **Terms.** Members' terms are staggered, with one-half of the members' terms expiring each year. Except for the cases described below, a member's term is two years. Members

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may be re-elected for subsequent terms. Shorter terms may be required for several reasons: (i) If two members are simultaneously selected to a sector that did not have any existing members, in order to stagger their terms, one member will be assigned a one-year term and the second member will be assigned a two-year term using a fair and unbiased method. (ii) If a member replaces a departed member between elections, the new member will assume the remaining term of the departed member. (iii) If a member is selected to fill a vacant member position between elections, his/her term will end when the term for that vacant position ends.

**6. Resignations, Vacancies, and Nonparticipation.**

- a. Members who resign will be replaced for the time remaining in the member’s term. Members will be replaced pursuant to Section 3.4, officers will be replaced pursuant to Appendix 3, and executive committee members will be replaced pursuant to Section 7.
- b. ~~Newly elected or appointed members will serve on the committee pending approval by the board.~~ The secretary will submit ~~new members’ names~~ to the board for approval at the board’s next regular meeting.
- c. ~~The committee chair will contact any member who has missed two consecutive meetings (even if the member has sent a proxy) to 1) seek a commitment to actively participate or 2) ask the member to resign from the committee.~~
- d. The chair may remove any member who has missed two consecutive meetings (even with a proxy).

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Deleted: <#>The committee may approve the new member on an interim basis at the committee’s next meeting.¶

**7. Proxies.** A member of the committee may give a proxy only to a person who:

- a. Meets the member’s eligibility requirements (see Section 3.3a) and is not affiliated with the same organization as another committee member (see Section 3.4c), or
- b. Is not another committee member, unless that committee member would represent the proxy’s sector instead of his/her own sector at the meeting.

To permit time to determine a proxy’s eligibility, proxies must be submitted to the secretary in writing at least one week prior to the meeting (electronic transmittal is acceptable). Any proxy submitted after that time will be accepted at the chairman’s discretion, provided that the chairman believes the proxy meets the eligibility requirements.

**Section 4. Meetings.**

See Appendix 2, “Meeting Procedures.” Unless stated otherwise, the Planning Committee will follow Robert’s Rules of Order, Newly Revised.

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1. **Quorum.** The quorum necessary for the transaction of business (i.e., formal actions) at meetings of the committee is two-thirds of the voting members currently on the committee roster (i.e., does not count vacancies). The committee may engage in discussions without a quorum present.
2. **Voting.** Actions by members of the committee shall be approved upon receipt of the affirmative vote of two-thirds of the voting members of the committee present and voting, in person or by proxy, at any meeting at which a quorum is present. The chair and vice chair may vote. Additional voting guidelines are in Appendix 2.
3. **Antitrust Guidelines.** All persons attending or otherwise participating in the committee meeting shall act in accordance with NERC's Antitrust Compliance Guidelines at all times during the meeting. A copy of the NERC antitrust statement shall be included with each meeting agenda.
4. **Open Meetings.** NERC committee meetings shall be open to the public, except as noted below under Confidential Sessions. Although meetings are open, only voting members may offer and act on motions.
5. **Confidential Sessions.** The chair of a committee may limit attendance at a meeting or portion of a meeting, based on confidentiality of the information to be disclosed at the meeting. Such limitations should be applied sparingly and on a nondiscriminatory basis as needed to protect information that is sensitive to one or more parties. A preference, where possible, is to avoid the disclosure of sensitive or confidential information so that meetings may remain open at all times. Confidentiality agreements may also be applied as necessary to protect sensitive information.

## Section 5. Officers.

See Appendix 3, "Officer Selection Process"

1. **Selection.** At its first June meeting and every two years thereafter, the committee shall select a chair and vice chair from among its voting members by majority vote of the members of the committee to serve as chair and vice chair of the committee from the end of that June meeting until the end of the June meeting two years later.
2. **Terms.** The chair and vice chair serve two-year terms.
3. **Representation.**
  - a. The newly selected chair and vice chair shall not be from of the same sector.
  - b. The chair and vice chair, upon assuming such positions, shall cease to act as members of the sectors that elected them as members to the committee and shall thereafter be responsible for acting in the best interests of the members as a whole.

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4. **Board approval.** Pending approval by the board, the newly elected officers will assume their duties. The secretary will submit the names of the elected officers to the chair of the board for approval at the board's next regular meeting.

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### **Subcommittees**

The Planning Committee may appoint technical subcommittees, task forces, and working groups as needed. The Planning Committee is responsible for directing the work of these subgroups and for their work products.

## **Section 7. Executive Committee**

1. **Authorization.** The executive committee is authorized to act between regular meetings of the Planning Committee. However, the executive committee may not reverse the Planning Committee's decisions.
2. **Membership.** The executive committee is comprised of the chair, the vice chair, and four at-large members. The committee will nominate and elect the four at-large members of the executive committee at its September meeting. No two members may be from the same sector.
3. **Election Process.**
  - a. The chair opens the floor for nominations.
  - b. If the committee members nominated four or fewer candidates, then those candidates are automatically elected.
  - c. If the committee members nominate more than four candidates, then the secretary will distribute paper ballots for the members to list their top four candidates.
  - d. The four candidates who receive the most votes will be elected, provided that no two candidates may be from the same sector.
4. **Terms.** The executive committee will be replaced every two years, with the chair and vice chair replaced at a June meeting and the at-large members replaced at a September meeting.

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## Appendix 1 – Committee Members

Name	Definition	Members
<b>Voting Members</b>		
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3. Cooperative utility	This sector includes any non-governmental entity that is incorporated under the laws of the state in which it operates, is owned by and provides electric service to end-use customers at cost, and is governed by a board of directors that is elected by the membership of the entity; and any non-governmental entity owned by and which provides generation and/or transmission service to such entities. This sector also includes organizations that represent the interests of such entities.	2
4. Federal or provincial utility/Federal Power Marketing Administration	This sector includes any U.S. federal, Canadian provincial, or Mexican entity that owns and/or operates electric facilities in any of the asset categories of generation, transmission, or distribution; or that functions as a power marketer or power marketing administrator. This sector also includes organizations that represent the interests of such entities. One member will be a U.S. federal entity and one will be a Canadian provincial entity.	2
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6. Merchant electricity generator	This sector includes any entity that owns or operates an electricity generating facility that is not included in an investor-owned utility's rate base and that does not otherwise fall within any of sectors (i) through (v). This sector includes but is not limited to cogenerators, small power producers, and all other non-utility electricity producers such as exempt wholesale generators who sell electricity at wholesale. This sector also includes organizations that represent the interests of such entities.	2
7. Electricity marketer	This sector includes any entity that is engaged in the activity of buying and selling of wholesale electric power in North America on a physical or financial basis. This sector also includes organizations that represent the interests of such entities.	2

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Name	Definition	Members
<b>Voting Members</b>		
8. Large end-use electricity customer	This sector includes any entity in North America with at least one service delivery taken at 50 kV or higher (radial supply or facilities dedicated to serve customers) that is not purchased for resale; and any single end-use customer with an average aggregated service load (not purchased for resale) of at least 50,000 MWh annually, excluding cogeneration or other back feed to the serving utility. This sector also includes organizations that represent the interests of such entities.	2
9. Small end-use electricity customer	This sector includes any person or entity within North America that takes service below 50 kV; and any single end-use customer with an average aggregated service load (not purchased for resale) of less than 50,000 MWh annually, excluding cogeneration or other back feed to the serving utility. This sector also includes organizations (including state consumer advocates) that represent the interests of such entities.	2
10. Independent system operator/regional transmission organization	This sector includes any entity authorized by the Commission to function as an independent transmission system operator, a regional transmission organization, or a similar organization; comparable entities in Canada and Mexico; and the Electric Reliability Council of Texas or its successor. This sector also includes organizations that represent the interests of such entities.	2
11. Regional reliability organization	This sector includes any regional reliability organization as defined in Article I, Section 1, of the Bylaws of the corporation. In aggregate, this sector will have voting strength equivalent to two members. The voting weight of each regional member's vote will be set such that the sum of the weight of all available regional reliability organizations members' votes is two votes.	
	<u>RRO</u>	<u>Number of Members</u> <u>Proportional Voting</u>
	FRCC	1                                      X
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	ERCOT	1                                      X
	MRO	1                                      X
	NPCC	1                                      X
	SERC	1                                      X
	SPP	1                                      X
WECC	1                                      X	
12. State government	(See Government representatives below)	2
Officers	Chair and Vice Chair	2
<b>Total Voting Members</b>		<b>26</b>

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Name	Definition	Members
<b>Non-Voting Members<sup>1</sup></b>		
Government representatives	This sector includes any federal, state, or provincial government department or agency in North America having a regulatory and/or policy interest in wholesale electricity. Entities with regulatory oversight over the Corporation or any regional entity, including U.S., Canadian, and Mexican federal agencies and any provincial entity in Canada having statutory oversight over the Corporation or a regional entity with respect to the approval and/or enforcement of reliability standards, may be nonvoting members of this sector.	
	United States federal government	2
	Canadian federal government	1
	Provincial government	1
Secretary	The committee secretary will be seated at the committee table	1
Subcommittee Chairs	The chairs of the subcommittees will be seated at the committee table.	

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<sup>1</sup> Industry associations and organizations and other government agencies in the U.S. and Canada may attend meetings as non-voting observers.

Deleted: August 5, 2009

## Appendix 2 – Meeting Procedures

### Section 1. Voting Procedures for Motions

- a. The default procedure is a voice vote.
- b. If the chair believes the voice vote is not conclusive, he may call for a show of hands.
- c. The chair will not specifically ask those who are abstaining to identify themselves when voting by voice or a show of hands.
- d. The committee may conduct a roll-call vote in those situations that need a record of each member's vote.
  - The committee must approve conducting a roll-call vote for the motion.
  - The secretary will call each member's name.
  - Members may answer "yes," "no," or "present" if they wish to abstain from voting.

### Section 2. Minutes

#### 1. General guidelines.

- a. Meeting minutes are a record of what the committee did, not what its members said.
- b. Minutes should list discussion points where appropriate, but should usually not attribute comments to individuals. It is acceptable to cite the chair's directions, summaries, and assignments.
- c. Do not list the person who seconds a motion.
- d. Do not record (or even ask for) abstentions.

2. **Minority Opinions.** All committee members are afforded the opportunity to provide alternative views on an issue. The meeting minutes will provide an exhibit to record minority opinions. The chair shall report both the majority and any minority views in presenting results to the Board of Trustees.

3. **Personal Statements.** The minutes will also provide an exhibit to record personal statements.

Deleted: August 5, 2009

## Appendix 3 – Officer Selection Process

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The committee selects officers using the following process. The chair is selected first, followed by the vice chair.

- a. The chair opens the floor for nominations.
- b. After hearing no further nominations, the chair closes the nominating process.
- c. If the committee nominates one person, that person is automatically selected as the next chair.
- d. If the committee nominates two or more persons, then the secretary will distribute paper ballots for the members to mark their preference.
- e. The secretary will collect the ballots. If the committee nominates three or more candidates, then the winner will be selected using the Instant Runoff Process. (Explained in Robert's Rules of Order.)

Deleted: August 5, 2009

## Appendix 4 – Reliability Guidelines Approval Process

### 1. Reliability Guidelines

*Reliability guidelines* are documents that suggest approaches or behavior in a given technical area for the purpose of improving reliability. Reliability guidelines are not binding norms or mandatory requirements. Reliability guidelines may be adopted by a responsible entity in accordance with its own facts and circumstances.<sup>2</sup>

### 2. Approval of Reliability Guidelines

Because reliability guidelines contain suggestions that may result in actions by responsible entities, those suggestions must be thoroughly vetted before a new or updated guideline receives approval by a technical committee. The process described below will be followed by the Planning Committee:

- a. New/updated draft guideline approved for industry posting. The Planning Committee approves for posting for industry comment the release of a new or updated draft guideline developed by one of its subgroups or the committee as a whole.
- b. Post draft guideline for industry comment. The draft guideline is posted for industry-wide comment for forty-five (45) days. If the draft guideline is an update, a redline version against the previous version must also be posted.
- c. Post industry comments and responses. After the public comment period, the Planning Committee will post the comments received as well as its responses to the comments. The committee may delegate the preparation of responses to a committee subgroup. Deleted: s
- d. New/updated guideline approval and posting. A new or updated guideline which considers the comments received, is approved by the Planning Committee and posted as “Approved” on the NERC Web site. Updates must include a revision history and a redline version against the previous version. Deleted: sponsoring technical  
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- e. Guideline updates. After posting a new or updated guideline, the Planning Committee will continue to accept comments from the industry via a Web-based forum where commenters may post their comments.
  - i. Each quarter, the Planning Committee will review the comments received. At any time, the Planning Committee may decide to update the guideline based on the comments received or on changes in the industry that necessitate an update.
  - ii. Updating an existing guideline will require that a draft updated guideline be approved by the Planning Committee in step “a” and proceed to steps “b” and “c” until it is approved by the Planning Committee in step “d.”

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<sup>2</sup> Standards Committee authorization is required for a reliability guideline to become a supporting document that is posted with or referenced from a NERC Reliability Standard. See Appendix 3A in the NERC’s *Rules of Procedure* under “Supporting Documents.”



## **Future Meetings**

### **Board Action Required**

Approve February 16-17, 2011 (W–Th) in Phoenix as a future meeting date and location.  
Approve change made to the November 2010 meeting location from Atlanta, GA to New Orleans, LA.

### **Information**

The board has approved the following future meeting dates and locations:

- May 11–12, 2010 — Baltimore, Maryland (Tu–W)
- August 4–5, 2010 — Toronto, Canada (W–Th)
- November 3–4, 2010 — New Orleans, LA (W–Th)





## Reliability Standards

### Action Required

Approve or remand reliability standards, interpretations, procedures, and plans as follows:

- a. Interpretation of [CIP-001-1, R2 — Covanta Energy](#) — **Approve**
- b. Interpretation of [CIP-005-1, R1.3 and Applicability Section 4.2.2 — PacifiCorp](#) — **Approve**
- c. Interpretation of [CIP-006-1, R1.1 — PacifiCorp](#) — **Approve**
- d. Interpretation of [EOP-002-2, R6.3 and R7.1 — Brookfield Power](#) — **Refer to Address Appeals Issues**
- e. Violation Severity Levels for March 1, 2010 Compliance Filing — **Approve**
- f. Standards Committee Charter Revisions — **Approve (Attachment 1)**
- g. Status of Revision to Definition of “Protection System” — **Information**
- h. Update on Modifications to Reliability Standards Development Procedure — **Information (Attachment 2)**
- i. Summary Update of Standards Program Activity — **Information**

### Information

NERC’s Reliability Standards Program works through the Standards Committee (SC) to develop and maintain continent-wide reliability standards, utilizing NERC’s Reliability Standards Development Procedure. NERC also is responsible for the review of proposed Regional Entity standards. The program also has primary responsibility for managing NERC’s relationship with the North American Energy Standards Board, which develops business practice standards and communications protocols for electric and gas wholesale and retail market participants. The standards program depends on the active involvement of industry subject matter experts to both recommend and develop reliability standards.

#### a. Interpretation of CIP-001-1, R2 — Covanta Energy

### Action

Approve interpretation of Requirement R2 of CIP-001-1 for Covanta Energy and direct staff to file the interpretation with FERC and applicable governmental authorities in Canada.

### Background

On January 26, 2009, Covanta Energy submitted a request for formal interpretation of CIP-001-1 — Sabotage Reporting, Requirement R2. The purpose of CIP-001-1 is that “[d]isturbances or unusual occurrences, suspected or determined to be caused by sabotage, shall be reported to the appropriate systems, governmental agencies, and regulatory bodies.” Requirement R2 specifically states:

- R2.** Each Reliability Coordinator, Balancing Authority, Transmission Operator, Generator Operator, and Load Serving Entity shall have procedures for the communication of information concerning sabotage events to appropriate parties in the Interconnection.

Covanta Energy requested clarification on what is meant by the term “appropriate parties.” Additionally, Covanta asks “who within the Interconnection hierarchy deems parties to be appropriate?”

Members of the Cyber Security Order 706 SAR drafting team provided the following response to the interpretation request:

*The drafting team interprets the phrase “appropriate parties in the Interconnection” to refer collectively to entities with whom the reporting party has responsibilities and/or obligations for the communication of physical or cyber security event information. For example, reporting responsibilities result from NERC standards IRO-001 Reliability Coordination — Responsibilities and Authorities, COM-002-2 Communication and Coordination, and TOP-001 Reliability Responsibilities and Authorities, among others. Obligations to report could also result from agreements, processes, or procedures with other parties, such as may be found in operating agreements and interconnection agreements.*

*The drafting team asserts that those entities to which communicating sabotage events is appropriate would be identified by the reporting entity and documented within the procedure required in CIP-001-1 Requirement R2.*

*Regarding “who within the Interconnection hierarchy deems parties to be appropriate,” the drafting team knows of no Interconnection authority that has such a role.*

NERC presented the interpretation response for pre-ballot review on July 6, 2009. The initial ballot was conducted from August 6, 2009 through August 17, 2009 and achieved a quorum of 84.68 percent with a weighted affirmative approval of 68.92 percent. There were 58 negative ballots submitted for the initial ballot, and 42 of those ballots included a comment, which initiated the need for a recirculation ballot. The recirculation ballot was conducted from September 29, 2009 through October 9, 2009 and achieved a quorum of 89.92 percent with a weighted affirmative approval of 68.31 percent. There were 62 negative ballots submitted for the recirculation ballot, and 43 of those ballots included a comment. Some balloters listed more than one reason for their negative ballot.

The reasons cited for the negative ballots included the following:

- Twenty three balloters indicated concerns regarding the notification of parties for sabotage events:
  - Ten balloters indicated that the reference to obligations arising from “agreements, processes and procedures” may fail to include parties that perform reliability functions. Alternately, eight balloters indicated that the contractual or other obligations may not pertain to grid reliability and may therefore be overly inclusive. Six others indicated these references are too broad and still undefined.
  - Nine balloters indicated either Requirement R2 does not necessitate specific “appropriate entities” to be identified in the procedures or that it should be left to the

responsible entity to define the appropriate parties. Most of those balloters stated the list should be determined by the incident and potential impact.

- Four balloters indicated the interpretation still leaves open to debate between auditors and responsible entities the issue of whether the responsible entity identified appropriate interconnection parties.
- Two balloters indicated the third paragraph conflicts with the second. The third paragraph states the drafting team knows of no Interconnection authority who deems the parties that are appropriate, but the second says the registered entity must identify the appropriate parties, meaning the registered entity has the authority.
- Two balloters indicated phrases such as “appropriate parties” are ambiguous and would interfere with an auditor’s objective audit and could require an auditor (and a registered entity’s contracts department) to review every entity contract. This could potentially increase the need for resources for Regional Entities and registered entities with little or no benefit to the reliability of the Bulk Power System.
- Two balloters indicated the list of entities should not be required as auditable evidence in a compliance audit.
- Two balloters indicated Requirement R2 of CIP-001-1 is limited to requiring that the Reliability Coordinator, Balancing Authority, Transmission Operator, Generator Operator, and Load-Serving Entity have procedures in place for the communication of information concerning sabotage events.
- Two balloters indicated the notification should be made to the appropriate Reliability Coordinator; one suggested the Reliability Coordinator could cascade the message to other Reliability Coordinators in North America.
- One balloter indicated the interpretation should simply state that the drafting team asserts that those entities to which communicating sabotage events is appropriate would be identified by the reporting entity and documented within the procedure required in CIP-001-1.
- One balloter indicated the interpretation is not specific enough in its definition of “appropriate parties.”
- One balloter indicated the background agreements from which the entities created their lists will not be reviewed during a compliance audit, which will result in an audit simply confirming that the entity has a list for a requirement (R2) that requires an entity to have a procedure.
- One balloter indicated the first part of the interpretation is vague as it implies that the list of these entities should result from requirements of the other standards.
- One balloter indicated the interpretation needs to be more specific regarding the parties to be communicated with since significant doubt would remain as to whether or not the required communication processes have been established with all necessary parties; the balloter recommended Requirement R2 be revised to explicitly identify parties when CIP-001 is due for its next revision.
- One balloter indicated “appropriate entities” should be those organizations that need to know given the event and the circumstances. Within an Interconnection, the entities that should be made aware of the event are the Registered Entity’s Reliability Coordinator and/or Transmission Provider(s).

- One balloter indicated the response references reporting to entities requiring physical or cyber security event information, but this standard is focused on sabotage.
- Twelve balloters indicated concerns with the references to other standards:
  - Six balloters indicated the references to IRO-001, COM-002-2, and TOP-001 only add confusion and believe the interpretation process should just answer the question asked and not elaborate with further discussion.
  - Five balloters indicated IRO-001 and TOP-001 have nothing to do with sabotage reporting, with four of those balloters claiming that citing those standards in this way is an indirect interpretation of those two standards and therefore falls outside the ANSI-accredited process. Those four balloters indicated COM-002 is only marginally relevant.
  - One balloter indicated that using COM-002 as an example does not provide clarity because COM-002 also uses “appropriate” to describe the entities to which communication should be provided.
  - One balloter indicated the example standards do not address the CIP-001-1 criteria, leaving the entity to make a professional judgment as to whom reports should or should not be made. The balloter indicated the reporting process should be clearly defined by the drafting team.
- Eight balloters indicated general clarification is needed, saying either the interpretation is too vague or does not help with compliance for vague requirements.
- Two balloters indicated the phrase “...those entities to which communicating sabotage events is appropriate would be identified by the reporting entity and documented within the procedure required in CIP-001-1 Requirement R2” seems to mean that as long as the reporting entity does what its procedure states then it is in compliance. The balloters claim the purpose of the standards should not only ensure that reporting entities do what they state they will do but that they will perform in accordance with the requirement to maintain an acceptable level of reliability.

**b. Interpretation of CIP-005-1<sup>1</sup>, R1.3 and Applicability Section 4.2.2 — PacifiCorp Action**

Approve interpretation of Requirements R1.3 and Applicability Section 4.2.2 of CIP-005-1 for PacifiCorp and direct staff to file the interpretation with FERC and applicable governmental authorities in Canada.

**Background**

On February 6, 2009, PacifiCorp, with a shared interest from nine other registered entities, submitted a request for formal interpretation of CIP-005-1 — Cyber Security – Electronic Security Perimeters, Requirements R1.3 and Applicability Section 4.2.2. Reliability Standard CIP-005 requires the “identification and protection of the Electronic Security Perimeter(s) inside which all Critical Cyber Assets reside, as well as all access points on the perimeter.”

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<sup>1</sup>Since the request for interpretation in items 1b and 1c were received, Versions 2 and 3 of the CIP-002 through CIP-009 standards have been approved by the Board of Trustees. However, the requirements under interpretation were not substantively changed in the new versions of the standards and therefore the interpretations are relevant. For ease of reference, Version 1 will be referenced in the presented materials but the interpretations will also be incorporated into the newer versions of the standards as well.

The applicability section of CIP-005-1 states in Section 4.2.2 that:

**4.2.** The following are exempt from Standard CIP-005:

**4.2.2** Cyber Assets associated with communication networks and data communication links between discrete Electronic Security Perimeters.

Requirement R1 and sub-part R1.3 state:

The Responsible Entity shall comply with the following requirements of Standard CIP-005:

**R1.** Electronic Security Perimeter — The Responsible Entity shall ensure that every Critical Cyber Asset resides within an Electronic Security Perimeter. The Responsible Entity shall identify and document the Electronic Security Perimeter(s) and all access points to the perimeter(s).

**R1.3** Communication links connecting discrete Electronic Security Perimeters shall not be considered part of the Electronic Security Perimeter. However, end points of these communication links within the Electronic Security Perimeter(s) shall be considered access points to the Electronic Security Perimeter(s).

Regarding these requirements and applicability language, PacifiCorp requested clarification on a number of issues as outlined below. Members of the Cyber Security Order 706 SAR drafting team were assigned to provide the following response to the interpretation requests:

**Question 1 (Section 4.2.2)**

What kind of cyber assets are referenced in 4.2.2 as "associated"? What else could be meant except the devices forming the communication link?

**Response to Question 1**

*In the context of applicability, associated Cyber Assets refer to any communications devices external to the Electronic Security Perimeter, ( i.e., beyond the point at which access to the Electronic Security Perimeter is controlled.) Devices controlling access into the Electronic Security Perimeter are not exempt.*

**Question 2 (Section 4.2.2)**

Is the communication link physical or logical? Where does it begin and terminate?

**Response to Question 2**

*The drafting team interprets the data communication link to be physical or logical, and its termination points depend upon the design and architecture of the communication link.*

**Question 3 (Requirement R1.3)**

Please clarify what is meant by an "endpoint"? Is it physical termination? Logical termination of OSI layer 2, layer 3, or above?

**Response to Question 3**

*The drafting team interprets the endpoint to mean the device at which a physical or logical communication link terminates. The endpoint is the Electronic Security Perimeter access point if access into the Electronic Security Perimeter is controlled at the endpoint,*

*irrespective of which Open Systems Interconnection (OSI) layer is managing the communication.*

#### **Question 4 (Requirement R1.3)**

If “endpoint” is defined as logical and refers to layer 3 and above, please clarify if the termination points of an encrypted tunnel (layer 3) must be treated as an “access point? If two control centers are owned and managed by the same entity, connected via an encrypted link by properly applied Federal Information Processing Standards, with tunnel termination points that are within the control center ESPs and PSPs and do not terminate on the firewall but on a separate internal device, and the encrypted traffic already passes through a firewall access point at each ESP boundary where port/protocol restrictions are applied, must these encrypted communication tunnel termination points be treated as “access points” in addition to the firewalls through which the encrypted traffic has already passed?

#### **Response to Question 4**

*In the case where the “endpoint” is defined as logical and is  $\geq$  layer 3, the termination points of an encrypted tunnel must be treated as an “access point.” The encrypted communication tunnel termination points referred to above are “access points.”*

NERC presented the interpretation response for pre-ballot review on July 27, 2009. The initial ballot was conducted from August 27, 2009 through September 8, 2009 and achieved a quorum of 84.68 percent with a weighted affirmative approval of 80.37 percent. There were 45 negative ballots submitted for the initial ballot, and 30 of those ballots included a comment, which initiated the need for a recirculation ballot.

The recirculation ballot was conducted from October 16, 2009 through October 26, 2009 and achieved a quorum of 86.29 percent with a weighted affirmative approval of 83.25 percent. There were 41 negative ballots submitted for the recirculation ballot, and 29 of those ballots included a comment. Some balloters listed more than one reason for their negative ballot.

The reasons cited for the negative ballots included the following:

- Seventeen balloters indicated the interpretation either did not provide sufficient clarity or raised more questions; as follows:
  - Eight balloters sought more information regarding what constitutes an “endpoint” or the communication link’s termination points. One suggested the interpretation should state the termination points depend on design and architecture and could include at least three common design examples.
  - Four balloters asked how control could be better than a six-wall border.
  - Three balloters sought more information about “data communication links.”
  - Two balloters gave an example that in the response to question 4, there is discussion relative to layers 3 and higher, but nothing mentioned for layers 1 or 2.
  - One balloter asked if the communication link was meant to be physical or logical.
- Thirteen balloters indicated concerns with the answer to question 4:
  - Four balloters indicated the firewall access points already enforce port/protocol restrictions, which meet the requirement, stating that “[a]dding the further restriction of access points at the encryption endpoint is unnecessary, increases complexity

which by definition reduces reliability, and can have much wider implications beyond encrypted tunnels.”

- Four balloters indicated wording in the response that “the termination points of an encrypted tunnel must be treated as an ‘access point’” is too restrictive and will conflict with other interpretations, specifically PacifiCorp’s request for interpretation of CIP-006-1. The balloters were concerned that the interpretation could be viewed as indicating all encrypted tunnels are an access point to an ESP.
- Three balloters indicated that “[a] distinction has to be made in the response in regards to the encryption tunnel termination point when deciding whether such termination point is treated as an ‘access point’ or not.”
- One balloter stated that virtual private network (VPN) traffic should be treated the same as any other logical connection and that the access point to the ESP is able to provide layer 3 and 4 protection regardless of the type of traffic being traversed.
- One balloter indicated the question is confusing but believes the intent is to clarify that “access points” to an ESP can be effectively moved with the application of appropriate equipment. The balloter stated that a communication link between two ESPs utilizing an encrypted tunnel must have an encryption/decryption device at each end inside the ESP that would be defined as the “termination point.” The balloter asked, “if an additional protective device is added before the ‘termination point’ to protect the ESP, would this not effectively move the ‘access point?’ Must the logs of both protective devices be maintained?”
- One balloter disagreed with the response to question 3 regarding logical communication links, stating it could be taken to mean that any device at which a logical connection into the ESP terminates would be considered an access point.

### **c. Interpretation of CIP-006-1<sup>2</sup>, R1.1 — PacifiCorp**

#### **Action**

Approve interpretation of Requirement R1.1 of CIP-006-1 for PacifiCorp and direct staff to file the interpretation with FERC and applicable governmental authorities in Canada.

#### **Background**

On February 6, 2009, PacifiCorp, with a shared interest from nine other registered entities, submitted a request for formal interpretation of CIP-006-1 — Cyber Security – Physical Security of Critical Cyber Assets, Requirement R1.1. Reliability Standard CIP-006 is intended to ensure the implementation of a physical security program for the protection of Critical Cyber Assets.

Requirement R1 and sub-part R1.1 state:

The Responsible Entity shall comply with the following requirements of Standard CIP-006:

- R1.** Physical Security Plan — The Responsible Entity shall create and maintain a physical security plan, approved by a senior manager or delegate(s) that shall address, at a minimum, the following:

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<sup>2</sup> See Footnote 1.

- R1.1.** Processes to ensure and document that all Cyber Assets within an Electronic Security Perimeter also reside within an identified Physical Security Perimeter. Where a completely enclosed (“six-wall”) border cannot be established, the Responsible Entity shall deploy and document alternative measures to control physical access to the Critical Cyber Assets.

PacifiCorp requested clarification on several aspects of Requirement R1 as outlined in the question below. Members of the Cyber Security Order 706 SAR drafting team were assigned to provide the following response to the interpretation requests:

**Question**

If a completely enclosed border cannot be created, what does the phrase, “to control physical access” require? Must the alternative measure be physical in nature? If so, must the physical barrier literally prevent physical access e.g., using concrete encased fiber, or can the alternative measure effectively mitigate the risks associated with physical access through cameras, motions sensors, or encryption?

Does this requirement preclude the application of logical controls as an alternative measure in mitigating the risks of physical access to Critical Cyber Assets?

**Response**

*For Electronic Security Perimeter wiring external to a Physical Security Perimeter, the drafting team interprets the Requirement R1.1 as not limited to measures that are “physical in nature.” The alternative measures may be physical or logical, on the condition that they provide security equivalent or better to a completely enclosed (“six-wall”) border. Alternative physical control measures may include, but are not limited to, multiple physical access control layers within a non-public, controlled space. Alternative logical control measures may include, but are not limited to, data encryption and/or circuit monitoring to detect unauthorized access or physical tampering.*

NERC presented the interpretation response for pre-ballot review on July 27, 2009. The initial ballot was conducted from August 27, 2009 through September 8, 2009 and achieved a quorum of 84.92 percent with a weighted affirmative approval of 79.04 percent. There were 34 negative ballots submitted for the initial ballot, and 20 of those ballots included a comment, which initiated the need for a recirculation ballot.

The recirculation ballot was conducted from December 11, 2009 through December 23, 2009 and achieved a quorum of 90.08 percent with a weighted affirmative approval of 78.77 percent. There were 39 negative ballots submitted for the recirculation ballot, and 22 of those ballots included a comment. Some balloters listed more than one reason for their negative ballot.

The reasons cited for the negative ballots included the following:

- Five balloters did not believe the interpretation fully addressed the issues raised by PacifiCorp. The balloters indicated the response only addressed the ESP wiring external to a PSP and not alternative measures to control physical access to Critical Cyber Assets that may not reside within a “six-wall” physical border.
- Three balloters indicated wiring does not qualify as a Cyber Asset subject to CIP requirements. Some balloters offered opinions of what should be considered Cyber Assets:



- Cyber Assets are those that are IP addressable (routable) or accessible via hard lines (*i.e.*, telephone or modem).
- Cyber Assets are those components to which the wires are connected, such as patch panels, routers, switches, etc.
- One balloter indicated the interpretation lacked clarity regarding the characteristics of an “endpoint” and what devices are in scope as being associated with “data communication links.”
- One balloter suggested the drafting team explain the purpose of a six-wall border and measures for effectiveness, which would allow for an alternative implementation to be measured.
- Three balloters indicated the response to question 3 is confusing and introduces ambiguity into the standards, stating a thorough analysis of the implications of defining endpoints as either physical or logical and the resulting impact on the rest of the standards has not been completed.
- Two balloters indicated the question being asked is broader than just the location of the wiring that makes up part of the ESP. One balloter requested more specifics for what constitutes appropriate alternative measures, what is meant by control, and how a logical measure could be equivalent to or better than a physical measure, stating that logical controls won’t prevent a cable from being cut.
- Two balloters indicated Requirement R1.1 requires physical measures and does not reference logical measures. One balloter stated that encryption does not control physical access in any way. Though the balloter indicated support for allowing alternative protective measures, both balloters indicated this interpretation would essentially change the requirement and standard, which is inconsistent with the NERC *Reliability Standards Development Procedure* (interpretations may not be used for this purpose).
- One balloter requested clarification regarding whether “wiring” is meant as physical wires or a broader concept of communication paths, “including intermediate devices such as repeaters, bridges, frame relay devices, MPLS nodes, etc.” The balloter also requested clarification regarding which elements of security need to be provided (confidentiality, integrity, availability, etc.)
- One balloter seemed to indicate support for this interpretation but voted no with a reference to another interpretation. The balloter indicated this interpretation for CIP-006-1 Requirement R1 clarifies the option to use logical controls as alternative measures, which is something the company supported. The balloter explained the posted interpretation of CIP-005-1, Applicability Section 4.2.2 and CIP-005-1, Requirement R1.3, did provide the clarity the company sought regarding the characteristics of an “endpoint” and what devices are in scope as being associated with “data communication links.”
- One balloter indicated the response introduces a reference to wiring, but the question did not specifically refer to wiring.
- One balloter indicated concern that this interpretation would make compliance at power plants nearly impossible.
- One balloter indicated the interpretation response inadvertently resulted in expanding the requirements of the standard rather than interpreting the existing requirement. The balloter stated that neither Requirement R1.1 (CIP-006-1) nor Requirement R3 (CIP-002-

1) specifically discusses or identifies wiring as a Cyber Asset that would need physical protection within a six-wall barrier.

#### **d. Interpretation of EOP-002-2, R6.3 and R7.1 — Brookfield Power**

##### **Action**

Refer interpretation to team who developed the interpretation response to address issues raised on appeal.

##### **Background**

On January 31, 2008, Brookfield Power submitted a letter requesting an interpretation of Requirements R6.3 and R7.1 in EOP-002-2 — Capacity and Energy Emergencies. Reliability Standard EOP-002-2 ensures that Reliability Coordinators and Balancing Authorities are prepared for capacity and energy emergencies.

Requirement R6, sub-part R6.3, and Requirement R7, sub-part 7.1 state:

**R6.** If the Balancing Authority cannot comply with the Control Performance and Disturbance Control Standards, then it shall immediately implement remedies to do so. These remedies include, but are not limited to:

**R6.3.** Interrupting interruptible load and exports.

**R7.** Once the Balancing Authority has exhausted the steps listed in Requirement 6, or if these steps cannot be completed in sufficient time to resolve the emergency condition, the Balancing Authority shall:

**R7.1.** Manually shed firm load without delay to return its ACE to zero;

Brookfield Power specifically requests interpretation of EOP-002-2, Requirements R6.3 and R7.1 with respect to the type of export to be curtailed in conjunction with curtailment of interruptible load and firm load, respectively, to address a Balancing Authority's control performance and disturbance control issues. Brookfield Power asks if, to assist in complying with Control Performance and Disturbance Control Standards, R6.3 requires that only non-firm export shall be curtailed when interruptible load is curtailed whereas R7.1 requires that firm export shall be curtailed when firm load is curtailed. Brookfield Power cites the IRO-006-4 Standard pertaining to the use of the Transmission Loading Relief (TLR) process as the basis for its interpretation of EOP-002-2 Requirement R7.1.

The Executive Committee of the NERC Operating Reliability Subcommittee indicated that the request focuses on the treatment of export transactions during emergency operations, specifically the firmness of energy component. NERC's Glossary does not define the term "firm exports" and understanding how network resources are defined is important to consider the firmness of an export. The team therefore referred to the FERC Order 890 definition of Network Resource. The interpretation further stated that EOP-002-2 does not specify the curtailment procedures to be used for interruptible loads or non-firm/firm exports, only to the status of non-firm/firm energy. Curtailment procedures for transmission service are addressed in IRO-006-4 and are not tied to the actions identified in EOP-00-2. The interpretation further clarified that, when considering actions to be taken to comply with EOP-002-2 R6.3, it is intended that all exports, firm and non-firm, are available for curtailment with the exception of those exports designated as network resources for an external Balancing Authority. If a capacity or energy emergency still

exists after all exports have been curtailed with the exception of those related to a network resource designated to an external Balancing Authority, then EOP-002-2 Requirement R7.1 would take effect and firm load would be shed while the designated network resource transaction would continue to flow. Requirement R7.1 speaks only to the need to manage area control error and is not tied to the curtailment of export transactions as identified in IRO-006-4.

The initial ballot was conducted from June 2, 2008 – June 11, 2008 and achieved a quorum of 89.67 percent and a weighted affirmative approval of 76.47 percent. There were 39 negative ballots submitted, and 32 of those ballots included a comment.

The reasons for submitting a negative ballot varied, and several balloters submitted several reasons for their negative ballot:

- Thirty-four comments indicated that the interpretation is not technically correct with respect to what constitutes, “interruptible loads and exports.”
- Eleven comments indicated that the interpretation goes beyond Requirement R6.3 in the standard by interpreting what constitutes, “interruptible loads and exports.”
- Eight comments indicated that the areas that need clarification should be addressed in a SAR rather than in the interpretation.
- Four comments indicated that the interpretation is unclear on the difference in treatment of curtailments of firm Network Loads within the Balancing Authority Area and firm Network Loads outside the Balancing Authority Area.
- Four comments indicated that the interpretation seems to ignore the directive in Order No. 693 that proposes adding a requirement to have the Reliability Coordinator assess and approve actions that have impacts beyond the area views of Balancing Authorities.
- Three comments indicated the interpretation is incorrect because the Balancing Authority is not required to know the designation of a Network Resource.
- Three comments indicated that the interpretation conflicts with IRO-006-4 Requirement R1.1 and Attachment 1 regarding TLR Level 5a.
- Three comments indicated that the interpretation should address whether transactions should be curtailed because doing so will directly improve the Control Performance Standard/Disturbance Control Standard performance of the Balancing Authority experiencing the capacity/energy deficiency.
- Three comments indicated that the interpretation should address whether and how a generator located in the Balancing Authority’s Area, but whose output is not under the ownership or direct control of the Balancing Authority and which is not a Designated Network Resource for another Balancing Authority should be handled.

In lieu of responding to comments and proceeding to a recirculation ballot, the response team determined that additional clarification was warranted based on the comments received during the ballot. On August 20, 2008, a revised interpretation was presented for pre-ballot review as follows:

*The request for interpretation of EOP-002-2 Requirement R6.3 and R7.1 focuses on the treatment of export transactions during emergency operations. The issue in question is the firmness of the energy component of export transactions. The NERC Glossary of Terms Used in Reliability Standards does not contain a definition of “firm exports.” However, to determine the*

*firmness of an export it is important to understand how network resources are defined. FERC Order 890 provides for the following definitions:*

***Network Resource:***

*Any designated generating resource owned, purchased, or leased by a Network Customer under the Network Integration Transmission Service Tariff. Network Resources do not include any resource, or any portion thereof, that is committed for sale to third parties or otherwise cannot be called upon to meet the Network Customer's Network Load on a non-interruptible basis. (FERC Order 890, Appendix B, Section 1.27)*

***Designation of Network Resources:***

*Network Resources shall include all generation owned, purchased or leased by the Network Customer designated to serve Network Load under the Tariff. Network Resources may not include resources, or any portion thereof, that are committed for sale to non-designated third party load or otherwise cannot be called upon to meet the Network Customer's Network Load on a non-interruptible basis. Any owned or purchased resources that were serving the Network Customer's loads under firm agreements entered into on or before the Service Commencement Date shall initially be designated as Network Resources until the Network Customer terminates the designation of such resources. (FERC Order 890, Appendix B, Section 30.1)*

*When considering actions to be taken to comply with EOP-002-2 Requirement R6.3, all exports originating within the boundaries of the Balancing Authority experiencing the deficiency, firm and non-firm, are available for curtailment with the exception of those exports designated as network resources for an external Balancing Authority. If a capacity or energy emergency still exists after all exports have been curtailed with the exception of those related to a network resource designated to an external Balancing Authority then EOP-002-2 Requirement R7.1 would take effect and firm load would be shed while the designated network resource transaction would continue to flow.*

*EOP-002-2 addresses capacity and energy emergencies (i.e., a capacity/energy shortage, compliance with Control Performance (CPS) and Disturbance Control Standards (DCS), etc.), and the steps to be taken in their event. This standard does not specify the curtailment sequence to use for interruptible loads or non-firm/firm exports based on the type of transmission service being utilized. Curtailment procedures for transmission service are addressed in IRO-006-4 and are not tied to control actions identified in EOP-002-2.*

The initial ballot of the revised interpretation was conducted from September 19, 2008 through September 28, 2008 and failed to reach a quorum. Since the ballot did not reach quorum (55.43 percent), ballot results were declared invalid and the interpretation was re-balloted from October 6, 2008 through October 24, 2008. The re-ballot achieved a quorum of 82.61 percent with a weighted affirmative approval of 74.67 percent. There were 43 negative ballots submitted, and 27 of those ballots included a comment, which initiated the need for a recirculation ballot. Several balloters listed more than one reason for their negative ballot. The reasons cited for the negative ballots included the following:

- Twenty two balloters indicated concern with (or did not support) limiting a Balancing Authority's curtailment options during an emergency. Most of those balloters stated there are too many variables and circumstances to consider to determine the best course of action during an energy or capacity emergency to mandate shedding firm load before curtailing an export (as the interpretation suggests). Many also stated that a "source"

Balancing Authority does not necessarily know which exported resources are designated as network resources in the “sink” Balancing Authority. Some of the balloters offered suggestions on addressing the issue:

- Modify the e-tag specifications (INT standards) to include an identifier for designated resources to enable the source Balancing Authority to be able to determine which transaction could be curtailed.
- Modify the interpretation to indicate that the Balancing Authority with the energy shortage should take appropriate actions for the situation, in conjunction with the Reliability Coordinator, without causing interconnection-wide reliability problems.
- Two balloters indicated concern about the interpretation’s wording related to tariffs. One of those balloters was concerned the interpretation had the potential to create confusion with or conflict with the transmission curtailment priority specified in its Open Access Transmission Tariff (OATT).
- Two balloters indicated that basing curtailments of off-system schedules on whether or not the schedule is ultimately designated as a network resource is incorrect. The balloters stated there are various types of firm sales that can qualify as a network resource, and not all will be more firm than native load.
- Two balloters believe the interpretation is in conflict with FERC’s definition of firm transactions. The balloters referenced a FERC definition of firm in the FERC Form 1 (p. 310) and stated there have been numerous Commission and U.S. Circuit Court proceedings that establish curtailment rights and obligations.
- One balloter suggested that the issue of how to deal with identifying and coordinating network resources in the source, sink, and intermediary Balancing Authorities should be addressed (perhaps by another standard) prior to proceeding with this interpretation.
- One balloter indicated it would be more reasonable to curtail based on transmission type (e.g., non-firm versus firm), stating it is not practical to expect the source Balancing Authority to identify which exports have been designated as network resources by another entity.
- One balloter indicated the changes do not seem to address the comments on the first ballot.

In response to these concerns, the drafting team believes that, from a reliability perspective, the source Balancing Authority and other reliability functions should be aware of the firmness of the generation capacity and the transmission priority. In some systems, the source Balancing Authority already requests and receives this information. The drafters of this interpretation (Operating Reliability Subcommittee Executive Committee) will use the standards development process identifying the necessary modifications needed to ensure the transfer of this information. Further, regarding concerns over transmission service, this interpretation is meant to only cover the firmness of the energy component of the energy transactions, regardless of the type of transmission service.

The recirculation ballot for the revised interpretation was conducted from August 20, 2009 through August 31, 2009 and achieved a quorum of 86.96 percent with a weighted affirmative approval of 70.85 percent. There were 45 negative ballots submitted, and 31 of those ballots included a comment, reflecting similar comments with additional variations:

- Twenty three balloters indicated concern with (or did not support) limiting a Balancing Authority's curtailment options during an emergency. Most of those balloters stated there are too many variables and circumstances to consider to determine the best course of action during an energy or capacity emergency to mandate shedding firm load before curtailing an export (as the interpretation suggests). Many also stated that a "source" Balancing Authority does not necessarily know which exported resources are designated as network resources in the "sink" Balancing Authority area. Some of the balloters offered suggestions on addressing the issue:
  - Modify the e-tag specifications (INT standards) to include an identifier for designated resources to enable the source Balancing Authority to be able to determine which transaction could be curtailed.
  - Modify the interpretation to indicate that the Balancing Authority with the energy shortage should take appropriate actions for the situation, in conjunction with the Reliability Coordinator, without causing interconnection-wide reliability problems.
- Three balloters indicated concern about the interpretation's wording related to tariffs. One of those balloters was concerned the interpretation had the potential to create confusion with or conflict with the transmission curtailment priority specified in its OATT. One balloter suggested the interpretation request appears to be using the interpretation process to inject tariff change, explaining that curtailing only certain schedules during an emergency will have no measurable effect on CPS, which has monthly and yearly measures.
- Three balloters indicated the changes do not seem to address the comments on the first ballot.
- Three balloters believe the interpretation is in conflict with FERC's definition of firm transactions. The balloters referenced a FERC definition of firm in the FERC Form 1 (p. 310) and stated there have been numerous Commission and U.S. Circuit Court proceedings that establish curtailment rights and obligations.
- Two balloters indicated that basing curtailments of off-system schedules on whether or not the schedule is ultimately designated as a network resource is incorrect. The balloters stated there are various types of firm sales that can qualify as a network resource, and not all will be more firm than native load.
- Two balloters indicated it would be more reasonable to curtail based on transmission type (e.g., non-firm versus firm), stating it is not practical to expect the source Balancing Authority to identify which exports have been designated as network resources by another entity.
- One balloter indicated the interpretation does not cover the situation in which the exporting entity is a Generator Owner but not a Load-Serving Entity, explaining there are different curtailment situations for generating capacity and transmission capacity shortages.
- One balloter indicated the interpretation does not go far enough in explaining the difference between EOP-002-2 and IRO-006-4 and suggested coordination between the interpretation drafting team and Transmission Loading Relief Standard Drafting Team to provide a more complete interpretation and avoid subsequent interpretation requests. The balloter suggest adding the wording to the interpretation to explain EOP-002-2 is related to generating capacity shortages in a control area, whereas IRO-006-4 deals with transmission system overload conditions.

- One balloter suggested that the issue of how to deal with identifying and coordinating network resources in the source, sink, and intermediary Balancing Authority areas should be addressed (perhaps by another standard) prior to proceeding with this interpretation.

Separately on September 30, 2009, NERC received two requests for Level 1 Appeal of the revised interpretation: the first from Edison Electric Institute (EEI), and the second from Manitoba Hydro. The basis of the EEI appeal is that first, the interpretation does not address the question posed in the request, and second, the interpretation materially changes the requirements in the standard. In accordance with the appeals framework outlined in the Reliability Standards Development Procedure, NERC provided a response within 45 days of the request. On the first issue, NERC dismissed the request indicating:

“...the drafting team did provide a response to the question that was posed. While EEI may disagree with the language in the interpretation, its technical concerns are more appropriately offered for consideration during the development and approval process that includes the opportunity to vote and offer comments to which the development team must respond. The appeals mechanism offered in the *Reliability Standards Development Procedure* is not intended to provide remedies to entities that are dissatisfied with the technical content of a standard or interpretation. Appeals are intended to remedy adverse impacts that result from a failure to adhere to the standards development process.”

On the second issue raised by EEI, NERC reviewed the interpretation and found the interpretation does exceed the strict language in the standard requirement, which is contrary to the intent of the interpretation process. This view is also consistent with the NERC Board’s resolution at its November 5, 2009 meeting to view interpretations in a strict constructionist manner.

Manitoba Hydro’s appeal is based on the use of the term “network resource” in the interpretation, that the application of “network resource” per the interpretation may be inconsistent with FERC policies, and that the interpretation in general may conflict with Manitoba Provincial Law. Upon review, NERC dismissed the appeal on the basis that it:

“...focuses on the impact and application of the interpretation, rather than any procedural action or inaction regarding the interpretation process. Manitoba Hydro’s technical concerns are more appropriately offered for consideration during the development and approval process that includes the opportunity to vote and offer comments to which the development team must respond. The appeals mechanism offered in the *Reliability Standards Development Procedure* is not intended to provide remedies to entities that are dissatisfied with the technical content of a standard or interpretation. Appeals are intended to remedy adverse impacts that result from a failure to adhere to the standards development process.”

In this regard, NERC requests that the Board defer action to approve the interpretation; instead, NERC recommends the Board refer the interpretation to the team that drafted the response, directing that the interpretation be revised such that it does not expand on the scope of or materially change the requirement.

## e. Violation Severity Levels for March 1, 2010 Compliance Filing

### Action

Approve.

### Background

On March 3, 2008, NERC submitted a complete set of Violation Severity Levels (VSLs) for the original 83 FERC-approved reliability standard requirements as well as those for NUC-001-1. In its June 19, 2008 order on this filing, FERC approved the VSLs for the 83 standards, directed certain modifications to VSL assignments, and described four guidelines FERC developed to guide its evaluation of VSLs. FERC also ordered NERC to provide a number of reports using these guidelines and compliance filings to bring the VSLs into compliance with the guidelines. The VSL is a post-violation measurement of the degree to which a requirement was violated using four possible categories (Lower, Moderate, High, or Severe), and coupled with the Violation Risk Factor (VRF), establishes an initial base penalty range.

FERC's guidelines for evaluating VSLs are as follows:

- (1) VSL assignments should not have the unintended consequence of lowering the current level of compliance; Guideline 1 seeks to ensure that proposed VSL assignments will not signal to applicable entities that less compliance than that which has been historically achieved is condoned.
- (2) VSL assignments should ensure uniformity and consistency among all approved Reliability Standards in the determination of penalties; FERC VSL assignments: first, the single VSL assignment category for "binary" requirements is not consistent; and second, the VSL assignments contain ambiguous language.
- (3) VSL assignments should be consistent with the corresponding requirement; The VSL for a particular requirement should not appear to redefine or undermine the requirement.
- (4) VSL assignments should be based on a single violation, not on a cumulative number of violations. These guidelines will provide a consistent and objective means for assessing, *inter alia*, the consistency, fairness, and potential consequences of VSL assignments. The application of Guideline 4 is intended to ensure that VSL assignments are based on a single violation of a Reliability Standard and not based on a cumulative number of violations of the same requirement over a period of time.

For guidelines 2-4, the June, 2008 order directed NERC to submit a compliance filing, within six months of the date of the order, where NERC certified that it has reviewed each of the VSL assignments for consistency with the guidelines by providing a description of how it performed its review and, either validating the existing VSL designations or proposing revisions to specific approved VSL assignments where NERC determines that such assignments do not meet these guidelines.

For guideline 1, FERC directed that the report should include a description of how NERC performed the historical analysis. In doing so, NERC must identify (i) the requirement and its current VSL assignments and (ii) summarize the requirement's historical performance data. Where NERC determines that its VSL assignments are not consistent with a requirement's historical performance data, NERC should submit either (i) revised assignments that accurately reflect historical levels of compliance or (ii) provide a justification of the current VSL assignment.



On July 21, 2008, NERC filed a request for clarification and rehearing on several aspects of the June 19, 2008 order. In its response, FERC provided NERC an extension of nine-months, to September 18, 2009, to provide the reports<sup>3</sup> directed by the guideline analysis, that was further extended to March 1, 2010 upon NERC request.

NERC assigned the responsibility for VSL guideline 2, 3, and 4 review to the Project 2007-23 — Violation Severity Level drafting team (VSLDT), and the Project 2008-08 — EOP Violation Severity Level Revisions<sup>4</sup> drafting team. The EOP VSL drafting team posted its initial product in April, 2008, and then both teams posted a complete set of VSLs relative to the guideline analysis for industry review in April, 2009. After responding to comments, the proposed VSLs were balloted initially and for recirculation in July and August, 2009, respectively. The following table provides the results of this activity.

VSL Ballot (by standard types)	Initial		Recirculation	
	Quorum (%)	Approval (%)	Quorum (%)	Approval (%)
Resource and Demand Balancing (BAL)	86.28	89.56	92.04	89.41
Critical Infrastructure Protection (CIP), Communications (COM), and Voltage & Reactive (VAR)	86.50	85.78	92.41	84.64
Facilities (FAC) and Modeling (MOD)	86.64	87.63	92.67	88.04
Interchange (INT), Personnel (PER), and Nuclear (NUC)	85.71	88.63	92.17	88.73
Interconnected Reliability Operations (IRO)	86.16	90.15	91.96	90.77
Protection and Control (PRC)	86.32	88.26	92.31	86.93
Transmission Operations (TOP)	86.40	89.14	92.11	88.26
Transmission Planning (TPL)	85.71	90.46	91.96	89.28
Emergency Preparedness and Operations (EOP)	87.98	87.31	92.70	85.80

The reasons cited for the negative ballots can be grouped into eight categories:

1. Concerns with language and VSL consistency with requirements
2. Risk versus severity
3. Did not support binary approach
4. VSLs should be balloted by requirement
5. Changes not consistent with guidelines 2b, 3, and 4
6. Could create double jeopardy for compliance

<sup>3</sup>This extension excluded Guideline 2a pertaining to the assignment of VSLs for binary “yes/no” requirements. Accordingly, NERC filed VSL changes relative to this guideline review in December, 2008.

<sup>4</sup>The EOP VSL team was formed to focus specifically on the EOP standards. The VSLs for the EOP standards did not successfully ballot prior to the March 1, 2008 NERC filing but were submitted in the filing to be responsive to the FERC order.

7. Punitive to smaller entities
8. Discriminatory to Balancing Authorities

The following table displays the number of ballots with negative comments grouped by reason and standard family.

**Number of Negative Comments for VSLs by Reason and Standard Family**

Reason	Standard Family								
	BAL	CIP, COM VAR	FAC MO D	INT PER NUC	IRO	PRC	TOP	TPL	EOP
1. Language and VSL consistency with requirements	1	10	4	9		5	4	1	4
2. Risk versus severity	2		3			2		3	4
3. Binary approach opposition	6	5	4	5	5	5	4	4	5
4. VSL balloting approach opposition	4	4	4	4	4	4	4	4	4
5. Guidelines 2b, 3, and 4 consistency	1			1	1		1		
6. Double jeopardy for compliance	4				4	4			
7. Punitive to smaller entities	1	2							6
8. Discriminatory to Balancing Authorities	4								

Prior to and subsequent to the August, 2009 ballot, NERC Standards staff participated in the VSL drafting team review and subsequently conducted further analysis of the VSL assignments and justifications produced by the team for consistency with FERC guidelines. NERC staff took responsibility to evaluate Guideline 1 in its entirety. Following this review, on November 3, 2009, NERC posted 60 requirements with staff-proposed changes for industry comment. After considering these comments, VSLs for two requirements were changed back to the balloted language and six additional requirements were proposed for further VSL modifications. NERC proposes to include these identified changes in the required FERC filing for information, indicating they will be submitted for approval after completing the NERC development process.

In addition, several reliability standards were approved by FERC subsequent to the original VSL submission in March, 2008. While VSLs for these standards were balloted with consideration given to the FERC guidelines, a subsequent staff review of these standards against the FERC guidelines resulted in the need for modifications. Accordingly, these also will be identified in the FERC filing for information but processed to completion using the NERC development process. The affected standards are:

- PRC-023-1
- FAC-010-2, FAC-011-2, FAC-014-2
- PER-004-2, PER-005-1

- NUC-001-2
- EOP-005-2, EOP-006-2
- IRO-008-1, IRO-009-1, IRO-010-1, EOP-001-1, IRO-002-2, IRO-004-2, IRO-005-3, TOP-003-1, TOP-005-2, TOP-006-2
- MOD-001-1, MOD-008-1, MOD-028-1, MOD-029-1, MOD-030-2
- INT-005-3, INT-006-3, INT-008-3
- IRO-006-4
- CIP-002-2 through CIP-009-2
- CIP-002-3 through CIP-009-3

As a result, NERC requests board approval of VSLs that have been successfully balloted, noting that an additional request for approval will follow to address the additional VSL modifications identified in NERC staff review.

In total, the following VSL changes have been identified and/or processed through the extensive efforts of the industry stakeholders working on the VSL drafting teams and subsequent NERC staff review for overall consistency. Some requirements have modifications resulting from more than one category.

<b>Total Requirements Reviewed</b>	<b>797</b>
Guideline 1 Modifications	19
Guideline 2 Modifications	37
Guideline 3 Modifications	91
Guideline 4 Modifications	22
Clarifying or Conforming Changes	170
Incorporation of subrequirements into the main requirement (“roll-up”)	362
Other	17

## **f. Standards Committee Charter Revisions**

### **Action**

Approve modifications to the Standards Committee Charter.

### **Background**

One of the recommendations of the Results-Based Standards ad hoc team was to have the Standards Committee clarify its authority to conduct a quality review of drafting team projects:

- Revise the Standards Committee charter to clearly indicate that the committee is responsible not only for the integrity of the standards process, but also the essential quality attributes of the reliability standards in accordance with the ERO Rules of Procedure, as guided by the results-based principles outlined in this report, and without prejudice regarding the specific content of each standard.

Two additional changes to the charter are recommended by the standards staff:

- Removal of references to the Joint Interface Committee which has been dissolved; and
- Change the requirement to provide agendas for face-to-face meetings from 10 days in advance of face-to-face meetings to five days. This modification would require that all agendas be provided five days before a scheduled meeting, without consideration of whether the meetings were conducted on a face-to-face or conference-call basis. The “10 days” was copied from other committee charters where the committees meet on a quarterly basis, and is not realistic for meetings that are conducted on a monthly basis.

The Standards Committee approved the revisions to the Standards Committee Charter at its January 13–14, 2010 meeting.

#### **g. Status of Revision to Definition of “Protection System”**

##### **Action**

None.

##### **Background**

At the November, 2009 NERC Board of Trustees meeting, the Board approved an interpretation for PRC-005-1 on the basis that the interpretation supported the strict language of the standard. However, it was noted that the scope of the definition of “Protection System” may be more narrow than necessary to protect Bulk Power System reliability. Accordingly, the Board expressed an urgency to remedy this perceived deficiency by reviewing and potentially revising the definition. As included in the Board’s resolution approving the interpretation, the Board directed a status update at its next meeting.

“Priority should be given to addressing deficiencies or gaps in standards that pose a significant risk to the reliability of the bulk power system — addressing the gaps and deficiencies identified in Reliability Standard PRC-005 should be given such priority, and the Standards Committee should report on its plans and progress in that regard at the board’s February 2010 meeting;”

An existing standard drafting team is working to revise PRC-005-1 — Transmission and Generation Protection System Maintenance and Testing and, as part of its scope, revise the definition of “Protection System.” In July, 2009, the team posted its proposed revisions to both the standard and the definition for stakeholder review, and received suggestions for additional improvements to both. The team plans to post the standard and definition for another comment period starting in late February, 2010, and if stakeholder comments indicate support for the revised definition, the team will move the revised definition forward to ballot, while development work continues on the proposed revisions to PRC-005-1.

## **h. Update on Modifications to Reliability Standards Development Procedure**

### **Action**

None.

### **Background**

During its January 2010 meeting, the NERC Standards Committee approved posting for industry comment a new NERC Standard Processes Manual (Manual). The draft Manual is the product of three parallel efforts to improve NERC's standards development processes:

- Industry stakeholders submitted numerous comments during the development of the Three-Year ERO Performance Assessment, indicating the need for improvements to the standards processes, that would improve standards quality, reduce standards development time, reduce resource burdens on the industry to review and comment on draft standards, and improve the overall quality of NERC standards.
- The Standards Committee and its Process Subcommittee have been working on ideas to improve the effectiveness and speed of standards development while respecting NERC and American National Standards Institute (ANSI) standards development principles.
- NERC's Ad Hoc Group for Results-Based Reliability Standards submitted a preliminary report to the NERC Board of Trustees in November 2009 that highlighted the need to provide guidance to standards drafting teams and better "quality" control over the development of reliability standards.

In response to the Three-Year ERO Performance Assessment, a review by NERC staff and a member of the Standards Committee's Process Subcommittee was conducted to compare NERC's standards development process against ANSI's requirements for standards process accreditation, and to compare NERC's standards development process against three other ANSI-accredited standards developers. NERC staff merged these efforts and developed a new "Standard Processes Manual" that is intended to replace the "*Reliability Standards Development Procedure Version 7*" manual in its entirety.

The proposed Manual is intended to result in improvements to the standards processes by making more efficient use of limited resources while improving the quality of standards and maintaining ANSI accreditation of the standards process. The proposed Manual is currently posted for industry review and comment through March 12, 2010.

## **i. Summary Update of Standards Program Activity**

### **Regulatory Status**

In the United States, NERC has received approval for 95 continent-wide reliability standards and nine WECC regional standards. An additional 24 standards ("fill-in-the-blank") are still held as pending further information per Order No. 693.

Since the November NERC board meeting, FERC issued the following standards-related actions:

- Order No. 729 Approving six Modeling, Data, and Analyses standards pertaining to Available Transfer Capability
- Letter Order Accepting Errata Changes to Three Reliability Standards
- Letter Order Approving TOP-004-2 Violation Severity Levels

- Order No. 730 Approving INT-005-3, INT-006-3, and INT-008-3 Reliability Standards
- Order Addressing NERC's CIP Implementation Plan for U.S. Nuclear Power Plants and Requiring Compliance Filing
- Order Approving Nuclear Plant Interface Coordination Reliability Standard, NUC-001-2
- Notice of Inquiry Requiring Transmission Loading Relief and FERC's Open Access Transmission Tariff

Also since the last board meeting, the following standards regulatory filings have been made:

- Compliance Filing in Response to December 17, 2009 FERC Order Regarding Scope of Systems for Implementation of CIP Standards at U.S. Nuclear Power Plants
- Interpretation of PRC-005-1, Requirement R1
- Interpretation of TPL-002-0, Requirement R1.3.10
- Interpretation of CIP-007-2, Requirement R2
- Interpretation to TOP-005-1.1, Requirement R3 and IRO-005-2, Requirement R12
- Interpretation to MOD-001-1, Requirements R2 and R8, and MOD-029-1, Requirements R5 and R6
- Interpretations to CIP-006-1, Requirements R1.1 and R4
- Removal of MISO Waivers in Reliability Standards INT-003-2, and BAL-006-1
- Errata to WECC Regional Difference in FAC-010-2
- Third Quarter Filing of EOP-005-1 Simulation and Testing Data for Restoration Times of Offsite Power Sources to Nuclear Power Plants
- Reliability Standards Development Plan: 2010-2012
- Reliability *First* Regional Standard, BAL-502-RFC-02
- Compliance Filing of Revised Violation Risk Factors for NUC-001-1
- Violation Severity Levels for CIP Version 2 Reliability Standards
- Request for Clarification of Effective Dates of Six ATC Standards in Order No. 729
- CIP Version 3 Reliability Standards in Response to FERC September 30, 2009 Order
- System Restoration and Blackstart Standards
- Operate Within IRO Standards

### **Standards Under Development**

Key standards under development are:

- **Project 2008-06 — Cyber Security Order 706:** On December 29, 2009, NERC filed in response to the FERC September 30, 2009 Order, a set of Version 3 CIP Reliability Standards primarily addressing the directive regarding visitor control programs in CIP-006-2. NERC also provided in the compliance filing an updated schedule for project completion and a mapping of remaining FERC directives to be addressed by the team to the project phase in which they will be addressed.

The drafting team is now considering Version 4 of the CIP Reliability Standards, addressing the FERC Order 706 cyber security directed modifications. Four key principles are guiding the drafting team's work on these standards:

- Build on work already done to comply with Version 1 of the CIP reliability standards, including the industry's experience and investments.
- Address the complex nature of the Bulk Electric System (BES) reliability functions and interconnected Cyber Systems, both within and between multiple organizations.
- Provide Responsible Entities with reasonable flexibility in applying equivalent security controls on the basis of compensating controls, cyber system characteristics, and operating environment considerations.
- Include all Cyber Systems with potential to adversely impact the reliability of the BES if lost, comprised, or rendered unavailable.

The team initially focused on revising CIP-002 since it establishes the foundation for cyber security protection of the BES. The revised CIP-002-4 standard was posted for an informal 45-day comment period that began on December 29, 2009. A new approach is proposed in draft standard CIP-002-4 — Cyber Security — BES Cyber System Categorization. In collaboration with representatives of the Operating Committee and Planning Committee, the drafting team developed criteria for evaluating the potential level of impact on functions critical to the reliable operation of the BES. The criteria are organized in high, medium, and low BES impact categories. Responsible Entities apply the criteria to map their identified BES Subsystems to BES impact categories. For each BES Cyber System, Responsible Entities assign the highest impact level of the associated BES Subsystem(s). The subsequent cyber security standards, currently embodied in CIP-003 through CIP-009, will then be revised to establish the baseline cyber security controls that must be implemented to protect the assets identified in CIP-002. The drafting team has prioritized its work in response to Commission and industry concerns regarding identification of assets in CIP-002-1. The revised CIP-002-4 standard is projected for completion by mid-2010. Work on the remaining cyber security standards (CIP-003 through CIP-009) began in January 2010. Drafts of these new standards are anticipated to be posted for industry feedback by July 2010 and completed by year end.

- **Project 2006-02 — Assess Transmission Future Needs and Develop Transmission Plans:** The drafting team completed its development work and the standards were posted for pre-ballot review on January 20, 2010.
- **Project 2006-04 — Backup Facilities:** The proposed standard completed an initial ballot on September 28, 2009, achieving a 72.86 percent weighted segment approval. However, based on comments received during the ballot, the team determined it appropriate to further revise and clarify the requirements. The team anticipates returning the standard to ballot in the 2<sup>nd</sup> quarter of 2010.

# NERC

NORTH AMERICAN ELECTRIC  
RELIABILITY CORPORATION

## Standards Committee Charter

Proposed Revisions — February 4, 2010

Deleted: Approved by the NERC  
Board of Trustees on:

Deleted: ¶

to ensure  
the reliability of the  
bulk power system

January 2010

Deleted: ¶

Deleted: Approved by the  
Board of Trustees: May 2,  
2007

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## Section 1. Purpose

In compliance with the NERC Reliability Standards Development Procedure, the Standards Committee manages the NERC standards development process for the North American-wide reliability standards with the support of the NERC staff to achieve broad bulk power system reliability goals for the industry. The Standards Committee protects the integrity and credibility of the standards development process.

## Section 2. Activities

The Standards Committee's activities are subdivided into six areas:

### 1. Manage Standards Development

- a. Approves standard authorization requests (SARs) for public posting
- b. Approves the development of new or revised reliability standards based on SARs
- c. Appoints SAR and standard drafting teams
- d. Encourages having one compliance expert on each standard drafting team
- e. Monitors and manages progress of the development of reliability standards, including prioritizing, re-prioritizing, and scheduling standards development work
- f. Identifies projects to work on to achieve broad reliability goals for the industry
- g. Determines whether field testing of a proposed standard is necessary
- h. Facilitates industry discussion of proposed standards
- i. Provides guidance to drafting teams
- j. Receives and responds to decisions of appeals panels in accordance with the standards process

### 2. Manage the Standards Process

- a. Ensures the integrity of the reliability standards development process
- b. Ensures standards meet quality attributes without prejudice regarding the specific content of each standard. Quality attributes include such factors as clarity, completeness, sufficient detail, rational result, and compatibility with existing standards.
- c. Monitors the effectiveness of the standard development process and implements improvements where necessary
- d. Ensures that the standards development process maintains its ANSI accreditation
- e. Develops and maintains a work plan (annual) for standards development that prioritizes the existing and future work of the committee and its subgroups, consistent with the strategic and business plans of NERC

- f. Develops and maintains a long-term (multi-year) strategic vision that describes the goals and direction for development of standards
- g. Manages the update of reference documents used to support the reliability standards process including the Reliability Standards Development Procedure and Drafting Team Guidelines and the Functional Model
- h. Approves the posting of reference documents that support specific reliability standards

**3. Review the Effectiveness of the Balloting Process**

- a. Reviews the membership of the registered ballot body for balance
- b. Reviews balloting results for balance
- c. Monitors the participation in the balloting process

**4. Coordinate with Compliance Program**

- a. Works with the Certification and Compliance Committee to ensure that the development of the performance elements and compliance elements of each reliability standard are coordinated
- b. Ensures that standard drafting teams are coordinating with and receiving support from the compliance program in the drafting of compliance elements of a standard
- c. Ensures that the applicability section of each reliability standard is clear and meets the needs of the compliance program
- d. Ensures that the implementation plan for each reliability standard has been developed so that it meets the needs of the compliance program

**5. Coordinate with NAESB**

- a. ~~Executive Committee assists the Director of Standards in implementing the NERC/NAESB Joint Coordination Procedure~~
- b. ~~Executive Committee develops an annual work plan for joint activities with NAESB~~

**Deleted:** <#>Oversees the actions of the NERC members of the NAESB- NERC-IRC Joint Interface committee (JIC)\*  
<#>Participates in the JIC, as directed by the NERC Board of Trustees\*||

**6. Coordinate with NERC Board of Trustees, Regulators and Industry Groups, and Stakeholders**

- a. Interfaces with other NERC and industry groups regarding reliability standards
- b. Actively seeks inputs from the NERC Board of Trustees, regulators, regions, compliance program, readiness audit program, technical committees, and stakeholders on issues to be addressed through the development of standards
- c. Sponsors standards conferences as a means of communicating with stakeholders
- d. Reviews standards work plans and key standard projects with regulators

**Deleted:** d. .

### **Section 3. Reporting**

The Standards Committee reports to the NERC Board of Trustees and has the responsibility to keep the industry segments informed regarding standards.

### **Section 4. Membership**

#### **1. Segment Representation.**

The committee membership consists of two members elected from each industry segment. Each industry segment may establish its own rules for electing and replacing its representatives to the committee consistent with the following requirements:

#### **2. Membership Requirements.**

- a. No two persons employed by the same corporation or organization or by its affiliates may serve concurrently as committee members.
- b. Any committee member who has a membership conflict of this nature is obligated to notify the committee secretary, who shall inform the committee chair.
- c. Members impacted by such a conflict, such as through a merger of organizations, may confer between themselves to determine which member should resign from the committee and notify the committee secretary and chair. However, if both members are within the same industry segment, the segment will hold an election to determine which member shall continue to serve.
- d. If the conflict is not resolved in a timely manner by the impacted members, the committee chair shall notify all members of the affected industry segments recommending actions to resolve the conflict. If the membership conflict is still unresolved, the committee chair shall take the conflict to the NERC Board of Trustees for resolution.
- e. Any committee member aware of an unresolved membership issue shall notify the committee chair.

#### **3. Resignation from the Committee.**

Any member of the committee who chooses to resign from the committee shall submit a written resignation to the committee secretary and the committee chair.

- a. The committee secretary shall facilitate the election of a replacement member from the applicable industry segment. The new member shall serve the remainder of the vacant member's term.
- b. If any member of the committee fails to attend or send a proxy for two consecutive regularly scheduled meetings or two e-mail ballots between regularly scheduled meetings, the committee chair shall send a written notice to that member. The member shall be advised to submit a resignation or to request continuation of the membership with an explanation of any extenuating circumstances. If a written response is not received from the member within 30 days of the date of the written

notice, the lack of response shall be considered a resignation. The committee chair shall send a letter to the NERC Director of Standards, requesting that an election be held to fill the vacant committee position.

#### **4. Committee Member Changing Employment**

- a. Any committee member, who resigns from one organization and is subsequently employed by another organization in the same industry segment, shall have the option to retain the membership position.
- b. If a member changes employment to an organization in a different industry segment, then that member shall resign from the committee no later than the date of the employment change. The resignation letter shall be addressed to the committee chair, and the chair shall send a letter to the NERC Director of Standards, requesting that an election be held to fill the vacant committee position.

#### **5. Canadian Representation.**

If at any time the regular committee election does not result in at least two members being seated from Canada, then up to two Canadian members garnering the highest percentage of votes within their segment will be chosen as additional members of the committee. The preference is to have the Canadian nominees fill any segment vacancies for which they are qualified.

#### **6. Membership Terms.**

Committee members shall serve a term of two years, with members' terms staggered so that half of the member positions (one per segment) are refilled each year by industry segment election. There is no limit to the number of two-year terms that a member of the committee may serve, although the setting of limits in the future is not precluded. Membership terms start on January 1 of each year.

### **Section 5. Officers**

#### **1. Selection.**

The committee shall select its chair and vice chair from among its members during the first regularly scheduled meeting of each year.

#### **2. Terms.**

The term of office for both the committee chair and vice chair is one year without limit on the number of terms an officer may serve, although the setting of limits in the future is not precluded. The NERC Standards Process Manager serves as the non-voting secretary of the committee.

#### **3. Voting.**

The committee chair and vice chair are voting members of the committee.

#### **4. Duties of the Chair.**

In addition to the duties, rights, and privileges discussed elsewhere in this document, the committee chair has the responsibility to:

- a. Provide general supervision of committee activities
- b. Schedule all committee meetings
- c. Develop committee agendas, and rule on any deviation, addition, or deletion from a published agenda
- d. Preside at committee meetings
- e. Manage the progress of all committee meetings, including the nature and length of discussion, recognition of speakers, motions, and voting
- f. Review all substitute or proxy representatives
- g. Act as spokesperson for the committee at forums within and outside NERC
- h. Report committee activities to the NERC Board of Trustees
- i. Attend meetings of the NERC Board of Trustees
- j. Report all views and objections when reporting on items brought to the committee
- k. Perform other duties as directed by the NERC Board of Trustees

**5. Duties of the Vice Chair.**

The committee vice chair shall act as the committee chair if requested by the chair (for brief periods of time) or if the chair is absent or unable to perform the duties of the chair. If the chair is permanently unable to perform his or her duties, the committee vice chair shall act as the chair until the committee selects a new chair. The vice chair has the responsibility to:

- a. Assist the committee chair
- b. Attend meetings of the NERC Board of Trustees in the absence of the chair

**6. Duties of the Secretary.**

The NERC Standards Process Manager shall fill the secretary position and has the responsibility to:

- a. Serve under the direction of the committee chair, and be guided by the decisions of the committee
- b. Conduct the day-to-day operation and business of the committee
- c. Prepare, distribute, and post notices of committee meetings, record meeting proceedings, and prepare, distribute, and post meeting minutes
- d. Maintain a record of all committee proceedings, including responses, voting records, and correspondence
- e. Act as the committee's parliamentarian
- f. Maintain committee membership records
- g. Be a non-voting member of the committee

## **Section 6. Members' Responsibilities**

Committee members have the responsibility to:

- a. Represent their industry segment
- b. Provide knowledge and expertise representative of their industry segment
- c. Provide their industry segment feedback on standards development activities
- d. Respond promptly to all committee requests for reviews, comments, and voting
- e. Arrange for substitutes or proxies to attend and vote at committee meetings in their absence
- f. Respond promptly to all requests regarding attendance at committee meetings
- g. Assist in educating the industry regarding the reliability standards development process

## **Section 7. Subcommittees**

### **1. Executive Committee.**

The committee shall have an Executive committee that consists of five members, including the committee officers and three at-large members. The Executive Committee shall meet when necessary between regularly scheduled committee meetings to conduct committee business.

### **2. Additional Committees or Subcommittees.**

The committee has the authority to form additional committees or subcommittees as necessary.



## Section 8. Meetings

### 1. Open Meetings.

Meetings of the committee shall be open to all interested parties who pre-register by the cut-off date included in the meeting announcement. Only voting members may act on items before the committee. Meeting notices and agendas shall be publicly posted on the NERC Web site on the same day they are distributed to committee members. Final minutes of committee meetings shall be publicly posted on the NERC Web site the day after their approval by the committee. Notices shall describe the purpose of meetings and shall identify a readily available source for further information about the meeting.

### 2. General Requirements.

The committee shall hold meetings as needed and may use conference calls or e-mail to conduct its business.

### 3. Notice.

The committee secretary shall announce its regularly scheduled meetings with a written notice (letter, facsimile, or e-mail) to all committee members not less than ten nor more than sixty calendar days prior to the date of the meeting.

### 4. Agenda.

The secretary shall provide an agenda with a written notice (letter, facsimile, or e-mail) for committee meetings no less than five business days before a proposed meeting.

- a. The agenda shall include background material for all agenda items requiring a decision or vote. The agenda shall be posted on the NERC Web site the same day it is distributed to committee members.
- b. Items not in the agenda that require a vote cannot be added at a meeting without the unanimous consent of the members present. If such a matter comes up, it may also be deferred to the next meeting so that committee members have time to consult with their industry segment members.

**Deleted:** conference call meeting and no less than ten work days before a face-to-face

### 5. Parliamentary Procedures.

In the absence of specific provisions in this scope document, the committee shall conduct its meetings guided by the most recent edition of *Robert's Rules of Order, Newly Revised*.

### 6. Quorum.

A quorum requires two-thirds of the committee voting members.

### 7. Voting.

Voting may take place during regularly scheduled meetings or may take place through electronic means.

- a. **Two-thirds majority.** Approval of any committee action requires a two-thirds majority of the votes (including proxies) cast.
- b. **Recording votes.** Each individual member's vote for each action taken shall be included in the minutes of each meeting.

**8. Actions without a Meeting.**

The committee may act by mail or electronic (facsimile or e-mail) ballot without a regularly scheduled meeting. A two-thirds majority of the votes cast is required to approve any action. A quorum for actions without a meeting is two-thirds of the committee members. The committee chair or four members (each from different industry segments) may initiate the request for such action without a meeting. The secretary shall post a notice on the NERC Web site and shall provide committee members with a written notice (letter, facsimile, or e-mail) of the subject matter for action not less than ten nor more than sixty business days prior to the date on which the action is to be voted. The secretary shall distribute a written notice to the committee (letter, facsimile, or e-mail) of the results of such action within ten business days following the vote and also post the notice on the NERC Web site. The secretary shall keep a record of all responses (e-mails, facsimiles, etc.) from the committee members with the committee minutes.

**9. Proxies.**

A member of the committee is authorized to designate a proxy. Proxy representatives may attend and vote at committee meetings provided the absent committee member notifies in writing (letter, facsimile, or e-mail) the committee chair, vice chair, or secretary along with the reason(s) for the proxy. The member shall name the proxy representative and his or her affiliation in the correspondence. No member of the Standards Committee can serve as a proxy for another member of the Standards Committee.

## **Major Modifications Proposed in the Standards Development Processes Manual**

### **Introduction**

- Added a brief list of the “essential attributes” of NERC’s standards development processes, this confirms that NERC’s process meets ANSI’s essential requirements for accredited standards developers.

### **Principles**

- Eliminated this as a separate section.

### **Reliability Standard Definition, Characteristics, and Elements**

- The “definition” of a reliability standard was retained.
- The reliability principles have been replaced with the definition of an Adequate Level of Reliability.
- Added the market principles and removed the reference to these principles.
- Changed the “types of reliability standards” to “types of reliability requirements” to match the descriptions provided in the Results-Based report.
- Additional changes made to the “elements” to align with the Results-Based team’s recommendations.

### **Roles in the Reliability Standards Development Process**

The roles have been revised as follows:

- The Board of Trustees’ (BOT’s) role was expanded to reflect its role with respect to interpretations, definitions, and variances. The Standards Committee (SC) recommended modifying the existing language to mandate that the BOT file all approved standards for regulatory approval and this was adopted. If the BOT does not want to adopt a standard it is not required to do so.
- The Member Representatives Committee’s (MRC’s) role was removed and the BOT has indicated it wants interested parties to offer opinions during the development phase rather than “after the fact.”
- The SC’s role has been modified to indicate that the SC reports to the BOT, to include a reference to the SC Charter, and to add clarity to the scope of responsibilities, including the responsibility for ensuring that standards meet NERC’s benchmarks and FERC’s criteria for approval.
- The Registered Ballot Body role was modified to eliminate the reference to fees.
- The Standards Process Manager (SPM) was removed. The tasks assigned to the SPM have been distributed to several different members of the standards staff. Rather than list each job title, all references to the “SPM” have been changed to “standards staff.”

- The Standards Staff role was revised to absorb the duties of the SPM and to more accurately reflect the scope of duties in supporting drafting teams and in reporting results to the BOT.
- The Governmental Authority in approving standards, definitions, variances, interpretations, VRFs, and VSLs was added.
- The Committee role was revised to clarify that, in addition to providing feedback on standards-related projects, the committees have a special role in developing the technical justification for standards and for overseeing field tests.
- The NERC and RRO role was removed as this was identical to the role of all stakeholders.
- The Requester role was removed. ANSI does not require that the “requester” have any authority over a proposal and granting the “requester” the final authority over the scope of a proposal can delay a project without improving the project’s contribution to reliability.
- The Compliance Program role was revised to more accurately reflect the actual coordination between the compliance staff and drafting teams during the development of standards.
- The Compliance and Certification Committee role was added as it has a role in assessing compliance with the processes identified in the Reliability Standards Development Procedure Manual and in helping determine if a proposed standard is enforceable before the standard is posted for formal comment and ballot.
- The SAR Drafting Team role was removed. Having a separate drafting team to refine a SAR is not needed by ANSI and was identified as an action that adds time to the standards process without necessarily resulting in an improvement to reliability.
- The Standard Drafting Team role was revised to change the name to “Drafting Team” and the scope was modified to distinguish that the drafting team members are appointed to provide technical input to the development of the standard-related activity, but will be assisted by a technical writer. Wording was added to clarify that all drafting teams are responsible for their projects through the project’s approval from governmental authorities and to clarify that although NERC staff forms drafting teams for interpretations, the SC forms all other drafting teams and all drafting teams report to the SC.
- The role of NAESB was added to reinforce the need for effective coordination for standards that have elements impacting both reliability and business practices.

### **Reliability Standards Consensus Development Process**

- This section was removed. The concepts that are needed for ANSI accreditation are covered in the Introduction; other steps were redundant with other sections of the manual.

Based on a review of NERC’s process against ANSI’s essential requirements for standards developers, and the concern from stakeholders that the existing process takes too long, the steps

in the process have been condensed, so the numbering of the steps and the “sequence considerations” are no longer needed and are not included in the proposed manual.

### **Steps 1 through 3**

These sections were completely revised. ANSI doesn't require the work we do with SARs. The SC proposed major modifications to this section and stakeholders also recommended modifying the SAR process. The following changes reflect consolidation of those recommendations as well as adoption of processes used by other ANSI-accredited processes:

- The revised process encourages the submission of proposals for projects during an “open solicitation period” each year. The revised process reinforces the use of the “comments and suggestions” form as a mechanism to highlight the need to modify a standard or to possibly develop a new standard as an alternative to submitting a SAR.
- The revised process encourages the SC to take a more active role in establishing and adhering to the work plan with each project assigned a specific priority relative to other projects.
- SARs for new standards should be accompanied by a technical justification and some evidence, such as a research paper, to provide the drafting team with guidance on developing the proposed requirements. There will be no guarantee that the SAR will be immediately posted for review. If the SAR doesn't have a technical justification, a comment form will be posted to ask stakeholders to provide comments on whether a technical justification is needed, and if yes, what should be included in that justification. The SC is expected to work with the technical committees (or other experts) to solicit assistance in developing any needed technical justification. SARs that have been “completed” will be added to the Reliability Standards Development Plan but action to develop the associated standards may be deferred based on other priorities.
- SARs for development of new standards will be posted for comment with comments addressed by a drafting team. Where a drafting team is formed, the team will address both the SAR and the associated standard.
- SARs that are aimed solely at addressing regulatory directives or that address modifications to standards where the SAR has had some vetting, will have an “informal” comment period with comments provided to the associated standard drafting team – with no obligation to respond to the comments.
- The details of forming a drafting team are not included in the proposed manual. ANSI has no requirements for drafting team formation. The existing practice provides a team that is larger than needed without any obvious reliability benefit. While there are benefits to having a diverse team, the existing practice of appointing a person to represent each NERC region doesn't seem necessary and adds redundant skills to the drafting team. Under the current practice (embodied in SAR DT and SDT Scope Documents) if the two most qualified nominees came from the same NERC region, the SC would probably only appoint one to the SDT.

## Drafting Teams

- SAR requesters (now called “authors”) will not have any authority over a SAR. The SAR for a new standard will be shaped based on the technical expertise of its drafting team with feedback from stakeholders. (Most SARs will be developed by NERC staff and will reiterate the information already vetted in the project description included in the last approved version of the Reliability Standards Development Plan.)
- The SC will continue to appoint drafting teams, but selection will be based on technical expertise and group process skills. While some consideration will be given to having a diverse team, with major interconnections represented wherever practical, emphasis will be on appointing the “best” technical experts, with a team size of 7 as ideal. If a drafting team is assigned to work on a SAR, the same team will develop the associated standard.
- Drafting Teams will focus their attention on identifying “what” must be included in the standard and will have the final determination of the technical content of the standard, but the formatting of the requirements and wording for clarity will be determined by technical writers assigned to work with the drafting team.

## Collecting Informal Feedback on Preliminary Drafts

- Drafting Teams will have greater latitude to collect feedback on preliminary drafts of their documents. The revised process allows the team to use a variety of methods such as conferences, webinars, or informal comment periods to collect this preliminary feedback. With “informal” comment periods the drafting team has no obligation to respond to comments. The use of informal comment periods is something that stakeholders and drafting teams requested during the performance assessment, and has been authorized, on a very limited basis, by the SC. ANSI does not require that all comment periods be “formal” only that the comment period on the final draft be “formal” and open to all and that the drafting team be responsive to applicable comments submitted during this formal comment period.

## Conducting a Formal Review of the Standard

- This step was added to the standard to ensure that a quality review of the standard is conducted before the standard is posted for a formal comment period and balloting.

## Concurrent Formal Comment Period and Balloting

This section was revised so that it is in much closer alignment with the other ANSI-accredited standards development processes that we reviewed, all of which have the formal comment period at the same time as the ballot.

- Each standard must have at least one “formal” posting for stakeholder comment that is 45 days long. The standards staff will form a Ballot Pool during the first 30 days of this comment period. The initial ballot will take place during the last 10 days of this 45-day comment period.
- Each team will respond to all comments submitted either through a comment form or with a ballot.

- Each team will make a good faith effort at resolving each (applicable) negative comment, such that the final version of the standard is clear and enforceable. Where a team has a difference of opinion with a stakeholder on a technical issue, the team will provide its technical justification in its response to comments, even if provided earlier during the development of the standard, so that balloters have all information needed to make an informed decision about the proposed standard.
- Where a commenter provides a recommendation for an addition to the standard that goes beyond the scope of the work already undertaken, the suggestion will be considered the next time the standard is revised and the commenter will be so advised.
- The comments received and responses will all be posted for review before proceeding with the next ballot.
- The proposed standard may be balloted as many times as needed to reach consensus and result in a standard that is clear and enforceable. Under the conditions where a standard has received sufficient affirmative ballots to be approved, but there were one or more comments proposing a change that would improve the clarity of the standard, each ballot beyond the “initial” ballot may focus solely on the elements of the standard that were modified after the initial ballot. (For example, if the drafting team makes a change to a single requirement in a standard, the team may specify that the next ballot is only focusing on the modified requirement.)
- If a quorum is not achieved with an initial ballot, the ballot window will be extended until a quorum is achieved. There will not be a “reballot” process.
- There is no change to the criteria for approving a ballot.

## **Interpretations**

- The interpretation process was revised to include a formal comment period at the same time as the ballot almost identical to the way a standard is balloted, except that if the interpretation needs to be revised, there is no successive formal comment period conducted during the successive ballot.
- If an interpretation identifies the need to make revisions to a standard to improve its clarity, or if the drafting team discovers a reliability gap highlighted by the request for the interpretation, the drafting team will submit a SAR with the proposed standard revision to the standards staff. The Board indicated they wanted us to do this and to report our actions when we present the interpretation, even if we delay initiation of the project based on other priorities.

## **Errata**

- The errata process will be revised to eliminate the formal comment period. If the SC agrees that the correction of the error does not change the scope or intent of the associated standard, and agrees that the correction has no material impact on the end users of the standard, then the correction shall be submitted for information to the board and filed for approval with applicable governmental authorities. This is a variation from the existing process whereby the SC posts errata for a 30-day formal comment period, responds to comments, and then endorses submitting the errata to the board and

governmental authorities for approval. The board has indicated it does not want to “approve” errata and indicated this should be filed for governmental approval once the errata is approved by the SC. This is reflected in the revised language which assigns the SC the responsibility for approving errata.

### **Expedited Process**

- The SC has had to expedite the standards process several times to meet regulatory directives. The committee has been reluctant to use the “Urgent Action” process in the existing manual because it implies that the regular standards development process should be used except in cases where there is an urgent reliability-related need to shorten the development process, and regulatory directives don’t fall under “urgent reliability-related need.” To reflect the need to use an expedited process to meet regulatory directives or for an urgent reliability-related need, this process was revised to replace the “Urgent Action” with “Expedited” and to grant the SC the authority to approve deviations from the “normal” process to either meet a regulatory directive or to address an urgent reliability issue.

### **Special Procedures**

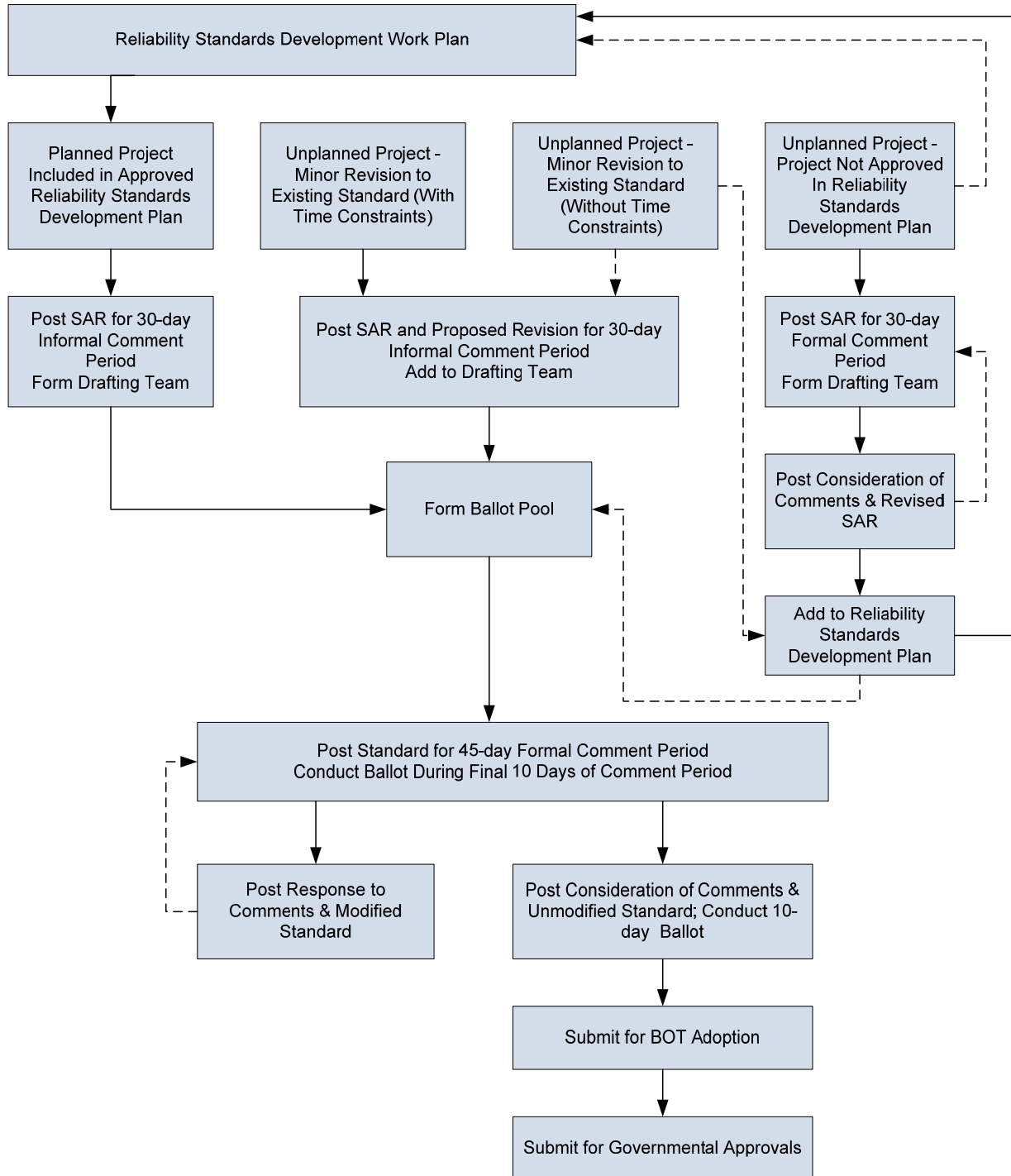
- The special procedures section of the manual that addresses developing requirements to address confidential issues associated with national security has been reformatted. There were three scenarios in the last manual: confidential and urgent; confidential and non-urgent; and urgent. This section now contains only the special processes associated with confidential issues. The section clearly states that standards developed using special procedures that have an expedited development schedule or limit stakeholder review will not be submitted for consideration as ANSI standards.

### **Field Tests and Data Analysis**

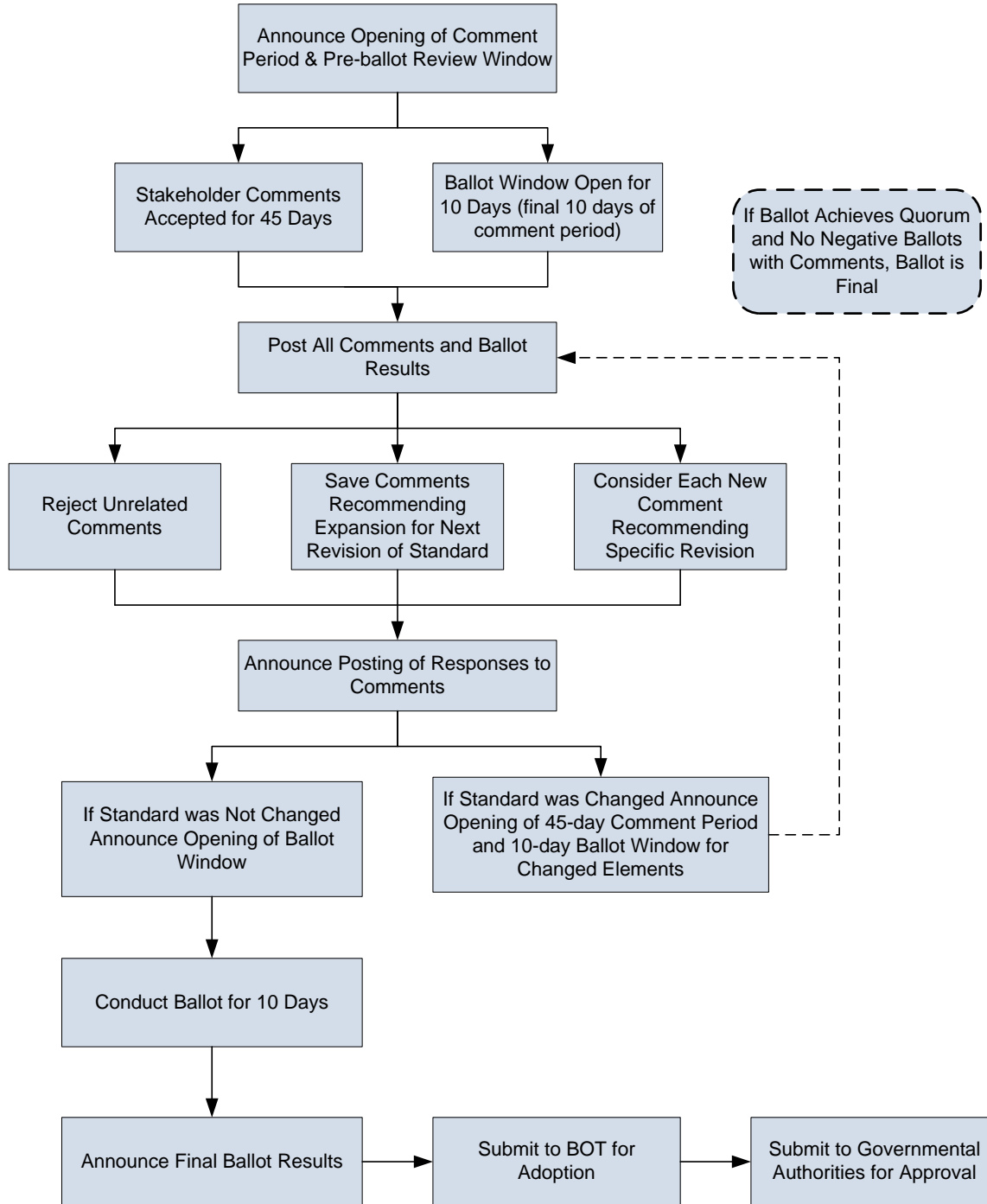
- This section was more fully developed to describe the three different types of field tests and data collection and analysis: validation of concepts used to support development of a SAR; validation of proposed requirements; and validation of compliance elements of a standard.



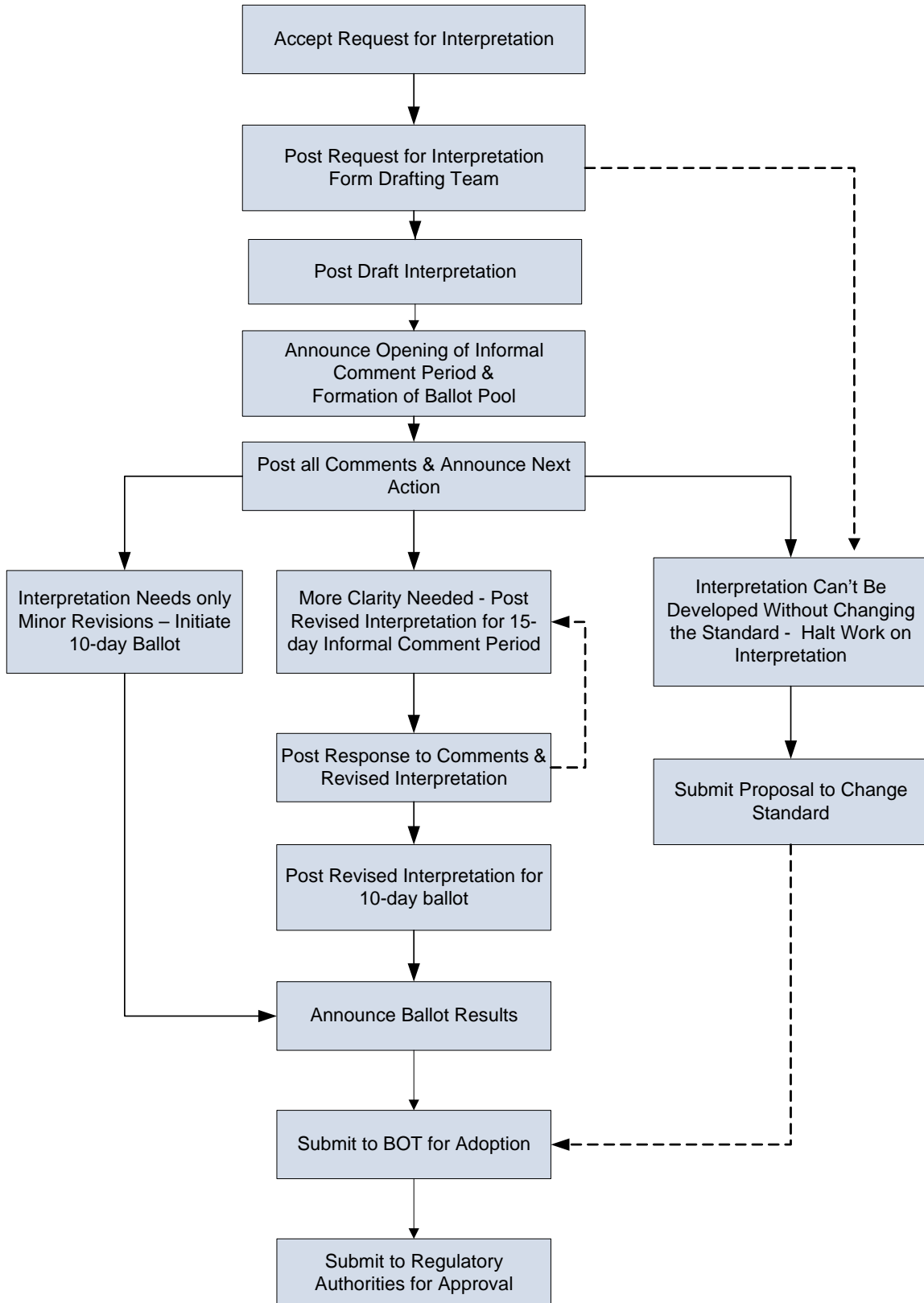
## Overview of Standards Development Process



## Formal Comment Periods and Balloting



## Interpretations





## **Proposed Revisions to the Compliance and Certification Committee Charter**

### **Action Required**

Approve proposed revisions to the Compliance and Certification Committee (CCC) Charter for filing with Federal Energy Regulatory Commission (FERC).

### **Summary of Proposed Changes**

The CCC is proposing minor revisions to the BOT approved Charter. During the CCC's December 9, 2009 meeting in Atlanta, the proposed revisions were voted and agreed upon. A quorum was present at the meeting, and the motion to accept the revisions was carried unanimously. The redline version of the proposed CCC Charter is included in this agenda package (**Attachment 1**). NERC staff agrees with the proposed changes.

A summary of proposed changes to the NERC CCC Charter as follows:

### **Administrative/Editorial Changes**

- Table of Contents, Section 2, and Section 8.a: the reference to "2/3" was replaced with the word "two-thirds."
- Section 8 (Hearings): the reference to "Regional Reliability Organization (RRO) was deleted because this is a term no longer used in the NERC Rules of Procedure.

### **Clarifying Changes**

- Section 2 (Compliance and Certification Committee Functions), Paragraph 3c: the reference to "Section 306" was deleted and replaced with "Section 300." The purpose of this modification is to provide the CCC with the ability to monitor compliance beyond more than the standards development process defined in Section 306 of the NERC Rules of Procedure.
- Section 2, Paragraph 4 (Hearing Body): the reference "As directed by NERC" was deleted. This change was made to ensure that the CCC has the ability to conduct hearings as described in the NERC Rules of Procedure, Section 409, which is described later in the same paragraph.
- Section 2, Paragraph 6 (Compliance Administration): the language "Actively supports the Standards Committee in the development of new and revised standards by providing a pool of qualified compliance oriented personnel for participation in the compliance administration element phase of the standards development process" replaced the language "Develops compliance administration elements for proposed reliability standards under development or for proposed revisions to existing reliability standards as requested and authorized by the NERC Standards Committee." The CCC's purpose in making this change is to give the CCC the ability to assist in the standards development process without having to be prescriptive in developing compliance administration elements.
- Section 2, Paragraph 8 (Board Assignments): the language "and standards development" was added to the end of the sentence. This change was made in order to capture the CCC's intent and responsibilities as outlined in the BOT-approved annual work plans.

- Section 4 (Meetings), Paragraph 2: the language “of the votes present (including proportional votes by Regional Representatives)” was added for clarity. The language “of the voting members of the Committee present and voting, in person or by proxy” was deleted.
- Section 5, Paragraph 5 (Confidential Sessions): the first sentence was modified to begin: “At the discretion of the CCC Chair.” The language “With approval of the NERC Director of Compliance” was deleted in order to improve efficiency should the director of compliance not be in attendance.
- Section 5, Paragraph 8 (Action Without a Meeting): the paragraph was rewritten as follows: “Any action required or permitted at a meeting of the committee may be taken without a meeting if two-thirds of the total votes available to the members of the CCC (including the proportional votes available to Regional Representatives) approve taking the action outside of a meeting.”

Effective October 18, 2007

## **Compliance and Certification Committee Charter**

**Approved by the NERC Board of Trustees: August 1, 2007** Compliance and  
Certification Committee Charter

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## Section 1. Mission

In the capacity of a NERC Board-appointed stakeholder committee serving and reporting directly to the NERC Board the Compliance and Certification Committee (CCC) will engage with, support and advise the NERC Board and NERC Compliance regarding all facets of the NERC Compliance Monitoring and Enforcement Program (Compliance program), Organization Registration program (Registration program) and Organization Certification program (Certification program). As a committee providing support and advice but otherwise independent of the execution of these programs the CCC will monitor NERC's compliance with the Rules of Procedure for these programs on an ongoing basis. Also and in a similar manner, as a committee independent of the Reliability Standards development process the CCC will be the body responsible for monitoring NERC's compliance with the Rules of Procedure regarding the Reliability Standards development process, with the exception of appeals of substantive or procedural action or inaction associated with a reliability standard or the standards process as defined in the appeals section of the Reliability Standards Development Procedure.

## Section 2. Compliance and Certification Committee Functions

To fulfill its mission, the Compliance and Certification Committee performs the following functions:

1. **Organizes and conducts committee meetings** directly with NERC Compliance program staff regarding all facets of the Compliance, Registration and Certification programs.
2. **Provides comments and recommendations to the NERC Board and NERC compliance staff:**
  - a. Provides comments to NERC with respect to stakeholders' perception of the policies, practices and effectiveness of the Compliance program, Registration program, and Certification program.
  - b. Recommends revisions of the ERO Rules of Procedure related to the Compliance program, Registration program, and Certification program to the NERC Board.
3. **Establishes and implements programs to monitor:**
  - a. NERC's compliance with the reliability standards that apply to NERC.
  - b. The Compliance program's adherence to NERC's Rules of Procedure as specified in Section 405 of NERC's Rules of Procedure.
  - c. NERC's compliance with the Section [300](#) of the Rules of Procedure regarding the Reliability Standards development process with the exception of appeals of substantive or procedural action or inaction associated with a reliability standard or the standards process as defined in the appeals section of the Reliability Standards Development Procedure. Committee members who have participated in the

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<sup>1</sup> Meetings are conducted pursuant to Section 4 of this Charter.

<sup>2</sup> Monitoring by the CCC is ongoing and does not preclude, interfere with or replace, in whole or in part, the NERC Board's responsibility to conduct and provide such reviews of these programs as required by

FERC Order 672 at § 39.3.c: "The Electric Reliability Organization shall submit an assessment of its performance three years from the date of certification by the Commission, and every five years thereafter." Compliance and Certification Committee Charter Effective October 18, 2007 - 5 -

development process for a particular Reliability Standard shall not participate in the Committee's monitoring of that process.

4. **Hearing body.** Serves as the hearing body for any contest regarding findings of or penalties or sanctions for violation(s) of reliability standard(s) where NERC is directly monitoring the entity for compliance with those standards (Registered Entity by agreement with an Regional Entity or absent a delegation agreement; the Region itself where approved standards are applicable to the region) as described in the NERC Rules of Procedure (ROP) Section 409.

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5. **Mediator.** As directed by the NERC Board, serves as the mediator for any disagreements between NERC and the Regional Entities concerning NERC performance audits of Regional Entities' compliance programs. When directed by the Board to serve as mediator, the committee chair will appoint three disinterested members of the committee to meet with representatives of NERC and the Regional Entity to attempt to resolve the matter.

6. **Compliance administration.** Actively supports the Standards Committee in the development of new and revised standards by providing a pool of qualified compliance oriented personnel for participation in the compliance administration element phase of the standards development process.

7. **Organization registration and certification.** Provides assistance to NERC and the Regional Entities to implement the Compliance and Organization Registration and Certification programs.

Deleted: Develops compliance administration elements for proposed reliability standards under development or for proposed revisions to existing reliability standards as requested and authorized by the NERC Standards Committee. ¶

8. **Board assignments.** Undertakes assignments from the Board or the Board's Compliance Committee related to compliance, organization registration and organization certification and standards development.

### Section 3. Membership

1. **Goals.** The Compliance and Certification Committee provides for balanced discussion, commentary and recommendations on compliance issues by bringing together a wide diversity of opinions and perspectives from NERC member sector experts who have particular familiarity, knowledge and experience in the area of compliance and NERC and Regional standards.
2. **Appointment and Terms of Service.** Members are appointed to the committee by the NERC Board and serve on the committee at the pleasure of the Board. Member terms are the lesser of: three years from appointment or interim approval (Section 5.b); replacement or removal by the Board. Members may be reappointed at the conclusion of a term. There is no limitation on the number of times a member may be reappointed. A member may be recommended to the Board for reappointment by the Nominating Subcommittee by self-nomination. To the extent practicable member terms will be staggered such that approximately one third of the committee is subject to reappointment or replacement each year.
3. **Qualifications.** Individuals deemed qualified to serve on the committee will generally include senior level industry experts who have particular familiarity, knowledge and experience in the area of compliance, compliance enforcement, compliance administration and management, organization responsibilities and registration,

organization certification, and NERC and Regional standards. These individuals should be involved with internal compliance programs within their respective organizations.

**4. Expectations.** Committee members are expected to represent the interests of the sector they represent, to the best of their ability and judgment. In addition to the duties, rights, and privileges described elsewhere in this charter, committee members will:

- a. Act consistently during meetings with the procedures in this manual and Robert's Rules of Order.
- b. Demonstrate and provide knowledge and expertise in support of committee activities.
- c. Adjudicate in a fair and unbiased manner that meets applicable legal and due process requirements when participating in hearing procedures conducted pursuant to the NERC Rules of Procedure (ROP) Section 409.
- d. Solicit comments and opinions from constituents and groups of constituents or trade organizations represented by the member and convey them to the committee.
- e. Respond promptly to all committee requests, including requests for reviews, comments, and votes on issues before the committee.
- f. Arrange for a proxy to attend and vote at committee meetings in the member's absence.
- g. Respond promptly to all requests to register for committee meetings.

5. **Representation.** The membership structure of the Compliance and Certification Committee (CCC) will be modeled upon the membership structure of the NERC Member Representatives Committee (MRC) as described in NERC's Bylaws (the Bylaws) Article VIII Section 2 [see Attachment A]. This will produce a committee that has an appropriate balance of entities subject to compliance with the NERC Reliability Standards and NERC's Compliance program, and others affected by the standards and the Compliance program.

- a. **Regional Entities.** Each Regional Entity, or the applicable regional organization if no Regional Entity exists for the geographic area, may nominate one member to the committee. In aggregate the sector will have voting strength equivalent to two members. The voting weight of each regional member's vote will be set such that the sum of the weight of all available regional members' votes is two votes.
- b. **Canadian representation.** The committee structure will include representation by Canadians as laid out in Article VIII Section 4 of the Bylaws.
- c. **NERC membership.** Users, owners and operators of the bulk power system are subject to the Compliance, Registration and Certification programs irrespective of whether they are NERC members. It is expected that committee members will generally be from organizations who are NERC members. However, committee members may be non-members of NERC subject to the qualifications identified herein and meeting requirements laid out in the Bylaws for non-NERC-member participation in the MRC.

6. **Selection.** The CCC will conduct open nominations processes to receive nominations to fill any membership vacancies. Prospective members of the committee may be identified to the CCC via any means the committee finds acceptable, including: solicited or unsolicited nomination by a recognized industry group or association; general open solicitation by the committee for nomination(s); individuals' self-nomination; directed solicitation by the committee to an individual or individuals; referral by the Board or other NERC body or committee.

- a. **Nominating Subcommittee.** The CCC will create a Nominating Subcommittee yearly to identify, qualify, and recommend individuals to fill sector representative vacancies on the committee or, when required, to serve as the chair or vice chair of

the committee. The subcommittee will identify the individuals they are recommending to the full CCC for review. Individuals recommended by the subcommittee for appointment to the committee must be approved by the Board.

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- b. **Interim approval.** Upon approval of the committee individuals identified and selected by the Nominating Subcommittee for membership on the committee may serve as members on an interim basis, pending their appointment by the Board.
- c. **Expertise.** When selecting individuals to recommend for committee membership, the Nominating Subcommittee will seek to engage individuals who, in aggregate, provide the committee with a level and breadth of expertise sufficient to achieve its goals and fulfill its scope and responsibilities, while respecting other important factors such as industry sector, region, Interconnection, and country.
- d. **Regional Entity Members.** Each Regional Entity, or the applicable regional organization if no Regional Entity exists for the geographic area, may nominate an individual to serve as a member representing their organization. The Nominating Subcommittee will defer to these nominations. The nomination is non-binding upon the Board. Vacancies on the committee will exist where the regional reliability organization or regional entity has not provided a nomination.
- e. **Canadian Members.** The Nominating Subcommittee will endeavor to attract and engage Canadians with suitable qualifications and expertise in adequate numbers to satisfy Article VIII Section 4 of the Bylaws. Recognized Canadian organizations such as the Canadian Electricity Association and CAMPUT will be consulted and solicited for assistance in recruiting Canadians to serve on the committee and all members considered to be serving as Canadians on the committee will be expected to have an endorsement, as appropriate, of such an organization. Canadian representatives should be capable of representing Canadian viewpoints in committee activities, in addition to the sector which they otherwise represent. Consistent with practice regarding the MRC the Board may appoint additional Canadian individuals to the committee towards satisfying Article VIII Section 4 of the Bylaws.

**7. Industry Sector Members.** The Nominating Subcommittee will assess the qualifications of nominees and select individuals to recommend to the NERC Board for appointment to the committee. The subcommittee may give preference to candidates nominated by organizations generally considered by the industry as representative of a broad cross section of the industry sector in question, such as an industry trade association. A NERC Member sector may elect to identify sector representatives for nomination to the Nominating Subcommittee through a process approved by the NERC Board.

**8. General Nominations and Appointment Process.** The committee's secretary administers the general nominations process.

- a. **Requesting nominations.** The NERC staff will request nominations NERC staff will forward nominations received to the Nominations Subcommittee. The Nominating Subcommittee will then prepare its recommended slate of members. The recommended slate will be reviewed by the whole committee for information purposes before it is submitted to the Board. The committee may approve the slate to serve as members on an interim basis, pending appointment by the Board at the Board's earliest convenience, but will not otherwise act on the slate.
- b. **Board approval.** The Nominating Subcommittee will present the recommended committee membership slate to the Board for approval. If the Board approves the recommended committee slate each member on the slate is appointed. The Board may also appoint members individually as needed to meet membership balance and fill vacancies.



**9. Vacancies and Non-participation.** The committee's secretary will administer the nominations process for vacancies on the committee.

- a. **Addressed on an ongoing basis.** Vacancies on the committee can be addressed on an ongoing basis through receipt and consideration of both solicited and unsolicited nominations for the vacant positions.
- b. **Role of the Nominating Subcommittee.** Nominations received for vacancies will be vetted by the Nominating Subcommittee in the same manner as nominations received as general nominations. The subcommittee may subsequently and individually recommend nominees they deem qualified to the NERC Board for consideration for appointment to the committee; existing committee members may also approve such individuals to serve as members on an interim basis pending full appointment by the Board.

#### 10. Resignations.

- a. **By the member.** In the event a member can no longer serve on the committee, that member will submit a written resignation to the committee chair or the secretary.
- b. **Requested by the chair.** The chair may request any committee member who ceases to participate in the committee, as indicated by not attending or sending a proxy for two consecutive meetings, to submit a resignation or to request continuation of membership with an explanation of extenuating circumstances. If a written response is not received within 30 days of the chair's request, the lack of response will be considered a resignation.
- c. **Referral to the Nominating Subcommittee.** The committee chair will refer the vacancy resulting from a resignation to the Nominating Subcommittee of the committee. If a recent list of nominations is available to the Nominating Subcommittee that it deems to be valid, the subcommittee will recommend a replacement nominee; otherwise, the subcommittee will request NERC staff prepare a new solicitation for nominations to fill that position. The Nominating Subcommittee will follow the previously stated criteria in recommending a replacement.
- d. **By the Board.** Committee members serve at the pleasure of the Board who may request resignation, remove or replace a member from the committee as the Board deems appropriate.

11. **Interim approval.** The committee chair may seek a vote of the committee to allow the proposed replacement member to be seated, pending appointment of the replacement, at the Board's next scheduled meeting.

12. **Proxies.** A substitute representative, or proxy, may attend and vote during all or a portion of a committee meeting in lieu of a voting member, provided the absent member notifies the committee chair, vice chair, or secretary of the proxy.

- a. **Notification.** Such notification will be in writing (electronic medium is acceptable). The proxy representatives and their affiliation will be named in the correspondence.
- b. **May not serve as a proxy for another member.** A voting member of a committee may not serve as a proxy for another voting member on the same committee (i.e. a member may not cast more than their own vote).

#### 13. Exclusions.

- a. **Regional Entity staff.** Regional Entity staff members who administer any portion of the Compliance program, Registration program, Certification program, or Readiness Evaluation program for that Regional Entity, or for any other Regional Entity, may not serve as a member of the CCC.

b. **Organizations.** No two individuals from the same organization, or affiliated organizations, may serve concurrently on the committee. Any committee member who has a membership conflict of this nature is obligated to notify the committee secretary, who shall inform the committee chair. Members impacted by such a conflict, such as through a merger of organizations, may confer between themselves to determine which member should resign from the committee and notify the committee secretary and chair. However, if both members are within the same industry sector and cannot reach an amicable solution by determining the member to remain, the Nominating Subcommittee will review the qualifications of each member and propose the member to remain to the full committee who will determine which member shall continue to serve, subject to Board approval. If the conflict is not resolved in a timely manner by the impacted members, the committee chair shall notify all members of the affected industry sectors recommending actions to resolve the conflict. If the membership conflict is still unresolved, the committee chair shall take the conflict to the NERC Board for resolution.

c. **NERC Staff.** The Director of Compliance Operations shall not be a member of the committee or vote on committee business. The Director of Compliance Operations and the Secretary shall be recused from participating in any committee activity that involves monitoring of NERC's compliance with Rules of Procedure or activity that the Director of Compliance Operations oversees. If the NERC staff coordinator has been recused from participating in a Committee activity, the chair shall appoint another member of the committee as acting secretary for any meetings or other activities from which the NERC staff coordinator is recused.

14. **Changes in Member Affiliation.** A committee member whose affiliation has changed may retain the membership position if:

- a. The new organization is in the same industry sector, and
- b. The member meets all other membership requirements.

15. **Conflict of Interest.** No committee member may have a conflict of interest that would impair his or her ability to fulfill obligations under this charter. Any committee member who knows of any form of membership conflict, such as working for an entity affiliated with that of another committee member, will notify the committee chair within ten business days of obtaining that knowledge.

## Section 4. Meetings

In the absence of specific provisions in this manual, all committee meetings will follow Roberts Rules of Order, Newly Revised.

### 1. Quorum.

- a. **Two-thirds of the voting members.** The quorum necessary for transacting business at meetings of the committee is two-thirds of the voting members currently on the committee's roster.
- b. **Includes members approved on interim basis.** Voting members approved by the committee on an interim basis, pending appointment by the Board, will be counted in the determination of a quorum.
- c. **Lack of a quorum.** If a quorum is not present at the beginning of the meeting, the committee may not take any actions requiring a vote by the committee. However, the chair may, with the consent of the members present, elect to allow discussion of the agenda items.

2. **Voting – actions require two-thirds majority.** Actions by members of the Committee will be approved upon receipt of the affirmative vote of two-thirds of the votes present (including proportional votes by Regional Representatives) at any meeting at which a quorum is present. The chairman and vice-chairman may vote.

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3. **Antitrust Guidelines.** All persons attending or otherwise participating in a NERC committee meeting will act in accordance with NERC's Antitrust Compliance Guidelines at all times during the meeting.

4. **Open Meetings.** NERC committee meetings will be open to the public, except as noted below under Confidential Information.

5. **Confidential Sessions.** At the discretion of the CCC Chair, a meeting or portion of a meeting of a committee may have attendance limited based on confidentiality of the information to be disclosed at the meeting. Such limitations should be applied sparingly and on a non-discriminatory basis as needed to protect information that is sensitive information or confidential information to one or more parties. All hearings of compliance matters will be confidential sessions. Confidential information will only be disclosed as provided by NERC Rule of Procedure 1500. Confidentiality agreements may also be applied, as necessary, to protect sensitive information or confidential information.

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6. **Types of Meetings.** Meetings may be conducted in person, by conference call, or other means. The procedures contained in this manual will apply to all meetings regardless of how they are conducted.

7. **Majority and minority views.** All members of a committee will be afforded the opportunity to provide alternative views on an issue. The results of committee actions, including recorded minutes, will reflect the majority as well as any minority views of the committee members. The chair will communicate both the majority and any minority views

in presenting results to the Board. Compliance and Certification Committee Charter Effective  
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8. Action without a Meeting.

- a. Requires two-thirds majority. Any action required or permitted at a meeting of the committee may be taken without a meeting if two-thirds of the total votes available to the members of the CCC (including the proportional votes available to Regional Representatives) approve taking the action outside of a meeting.
- b. Procedure. Such action without a meeting will be performed by mail or electronic ballot (e.g., telephone, facsimile, e-mail, or Internet), and will be recorded in the minutes as a roll call ballot. The secretary will announce the action required at least 10 days prior to the date on which the action is to be voted. As time permits, members should be allowed a window of ten business days to vote. The secretary will provide the results of such an action within ten business days of the close of the voting period.

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Section 5. Officers and Staff

1. General.

- a. Number of Positions. The committee will have two officers and a secretary.
- b. Officers. The committee officers will be one chair and one vice chair.
- c. Executive. As a minimum the committee shall retain an Executive of five persons consisting of the committee officers and the Director of Compliance Operations together with additional committee members selected as follows: The Chair of any Subcommittee the committee may establish in accordance with Section 7 of this Charter will be a member of the Executive; additional Executive members, if any are required and up to the number required to meet the five person minimum, will be selected by vote of the remaining non-Executive members of the committee.
- d. Secretary. The NERC staff coordinator will serve as the committee's secretary.
- e. Officers may vote. The committee chair and vice chair are voting members of the committee.
- f. Officers nominated by the Nominating Subcommittee. The CCC Nominating Subcommittee will recommend a chair and a vice chair who are then appointed by the NERC Board for a two-year term. The term of the chair and the vice chair, except for the first year, will begin on July 1 and end on June 30.
- g. Officers remain sector representatives. The chair and vice-chair are selected from the membership of the committee and, in addition to their chair or vice chair responsibilities, will continue to serve as a member for the sector for which they were appointed to the committee.

2. Chair. The chair will direct and provide general supervision of committee activities, including:

- a. Coordinate the schedule of all committee meetings including approval of meeting duration and location.
- b. Develop committee agendas and rule on any deviation, addition, or deletion from a published agenda.

- c. Preside at and manage committee meetings including the nature and length of discussion, recognition of speakers and proxies, motions, and voting.
- d. Will lead or direct the conduct of any hearings and the preparation of any adjudicatory documents by the committee pursuant to the NERC Rules of Procedure (ROP) Section 409.

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- e. Will insure actions and undertakings by the committee pursuant to the NERC Rules of Procedure (ROP) Section 409 meet all applicable legal and due process requirements.
- f. Will act as spokesperson for the committee at forums within and outside of NERC.
- g. May attend meetings of the NERC Board when necessary to report to the Board on committee activities.

3. **Vice chair.** The vice chair will assume the responsibilities of the chair under the following conditions:

- a. At the discretion of the chair (for brief periods of time);
- b. When the chair is absent or temporarily unable to perform the chair's duties; or
- c. When the chair is permanently unavailable or unable to perform the chair's duties. In the case of a permanent change, the vice chair will continue to serve until a new chair is nominated and selected by the Board.

4. **Staff Coordinator.** A member of the NERC staff will be selected by NERC's Director of Compliance Operations to serve as the staff coordinator and secretary of the committee. The staff coordinator is not a committee member and does not have a vote. Under the direction of the committee executive and applicable NERC bylaws, guidelines and rules of procedure, the staff coordinator will:

- a. Manage the day-to-day operation and business of the committee.
- b. Prepare and distribute the notices of the committee meetings, prepare the meeting agenda, and prepare and distribute the minutes of the committee meetings.
- c. Act as the committee's parliamentarian.

## Section 6. Nominating Subcommittee

1. **Appointment.** The Compliance and Certification Committee (CCC) will annually appoint a Nominating Subcommittee.

- a. **Five members.** The subcommittee will consist of five members nominated by the committee chair and approved by the committee. The chair of the subcommittee will be selected by the CCC chair from among the five subcommittee members.
- b. **Appointed annually.** The chairman will appoint the subcommittee members at the first regular meeting of the committee of the calendar year.
- c. **Serve for 14 months.** The subcommittee members will serve for up to 14 months or until such time as a new Nominating Subcommittee is authorized, whichever is earlier.

2. **Duties.** In addition to the duties, rights, and privileges described elsewhere in this manual, members of the Nominating Subcommittee will:

- a. Prepare a slate of committee officer candidates for submission to the NERC Board for approval.
- b. Prepare a slate of recommended individuals to fill designated committee vacancies as required.

**Section 7. Subordinate Groups.**

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**1. Committee organization hierarchy.** The Compliance and Certification Committee organizational structure will be arranged as allowed in the NERC Bylaws to support a superior-subordinate hierarchy that is ordered as follows:

- Committee
- Subcommittee
- Working Group
- Task Force

**2. Establishing subgroups.** The committee may establish subcommittees, working groups, and task forces as necessary. The committee chair may also form any of these subordinate groups on behalf of the committee. The committee will be the responsible sponsor of all subordinate subcommittees, working groups, or task forces it may create, or that its subordinate subcommittees and working groups may create. The committee will keep the Board informed of all groups subordinate to the committee.

**3. Subcommittees.** The committee may establish subcommittees to which the committee may delegate certain of the committee's broadly defined continuing functions. The committee will approve the scope of each subcommittee it forms. The committee chair will appoint the subcommittee officers (typically a chair and vice chair) for a specific term (generally two years). The subcommittee officers may be reappointed for up to two additional terms. The subcommittee will work within its assigned scope and be accountable for the responsibilities assigned to it by the committee. The formation of a subcommittee, due to the permanency of the subcommittee, will be approved by the Board.

**4. Working Groups.** The committee or any of its subcommittees may delegate specific continuing functions to a working group. The sponsoring committee or subcommittee will approve the scope of each working group it forms. The chair of the sponsoring committee or subcommittee will appoint the working group officers (typically a chair and vice chair) for a specific term (generally two years). The working group officers may be reappointed for up to two additional terms. The sponsoring committee or subcommittee will conduct a "sunset" review of each working group every two years. The working group will be accountable for the responsibilities assigned to it by the committee or subcommittee and will at all times work within its assigned scope.

**5. Task Forces.** The committee, subcommittee, or working group may assign specific work of a finite duration to a taskforce. The sponsoring committee, subcommittee, or working group will approve the scope of each taskforce it forms. The chair of the sponsoring committee, subcommittee, or working group will appoint the taskforce officers (typically a chair and vice chair). Each taskforce will have a finite duration, normally less than one year. The sponsoring group will review the taskforce scope at the end of the expected duration and at each subsequent meeting of the sponsoring group after that until the taskforce is retired. Action of the task force sponsoring group is required to continue the taskforce past its defined duration. The sponsoring group should consider promoting to a working group any taskforce that is required to work longer than one year.

**6. Subgroup Membership and Representation.**

- a. The membership of each subcommittee, working group, and taskforce should be established to address the need for expertise and balance of interests. Each group's membership requirements will be defined within the group's approved scope.
- b. As a general guide, the broader the group's scope, the more emphasis there should be on balancing of interests. Therefore subcommittees would be expected to have the

broadest representation of appropriate industry sectors, while a taskforce may be more focused on simply having the necessary expertise and a working group may be somewhere between.

- c. Each member of a subordinate group, and its officers, will be appointed by the chair of the sponsoring committee or group.
- d. To the extent subgroup membership is of a representative nature, recommendations for staffing of the group should be provided in a manner consistent with the principles outlined in the staffing of a committee, including the use of an open nominations process. Regional Entity representatives should be recommended by the Regional Entity and Canadian representatives by the Canadian Electricity Association. Preference may also be given to representatives recommended by broadly-based industry associations.
- e. To the extent subgroup membership is based on providing requisite expertise, the chair of the sponsoring committee or group may appoint members based on the relevant technical qualifications.

7. **Subgroup Procedures.** Subcommittees, working groups, and taskforces will conduct business in a manner consistent with all applicable sections of this manual and Robert's Rules of Order.

**Section 8. Hearings.**

- 1. **General.** The Compliance and Certification Committee will conduct hearings as necessary to fulfill its function of serving as the hearing body for any contest between NERC and a Regional Entity (RE) regarding NERC findings of or penalties or sanctions for violation(s) of reliability standard(s) by the RE as described in the NERC Rules of Procedure (ROP) Section 409.
- 2. **Hearing Procedure.** Unless specifically identified otherwise elsewhere in this charter the CCC's hearing procedure shall follow the hearing procedure mandated and approved by jurisdictional authorities for use by NERC and the Regional Entities in the Compliance program.
- 3. **Hearing Panel.** The committee shall not have a standing hearing panel. When a hearing is to be conducted the CCC shall select five members to serve as the adjudicatory panel for that hearing. Members to serve on the panel shall be selected by vote of a valid quorum of the committee. Voting members of the committee at arm's length from parties to the hearing may be nominated or volunteer to stand for selection to the hearing panel. One or more alternates may also be selected if/as the committee deems appropriate for the circumstances. A member may serve on more than one panel concurrently. A panel is disbanded upon conclusion of the hearing proceedings for which it was formed.

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Attachment A — CCC Membership Structure Primary Sector	Sub-Sector	Number of Members	Full Voting	Proportiona l Voting	Non-Voting	I n v e s t o
						2

							Private Utility
State/Municipal Utility		2					X
Cooperative Utility		2					X
Federal or Provincial Utility/Federal Power Marketing Administration		2					X
Transmission-dependent Utility		2					X
Merchant Electricity Generator		2					X
Electricity Marketer		2					X
Large End-use Electricity Customer		2					X
Small End-use Electricity Customer		2					X
Independent System Operator/Regional Transmission Organization		2					X
Regional Entity	FRCC		1				X
	RFC	1				X	
	ERCOT	1				X	
	MRO	1				X	
	NPCC	1				X	
	SERC	1				X	
	SPP	1				X	
	WECC	1				X	
Government	US State		2				X
	US Federal	2				X	
	Canadian Provincial	1				X	
	Canadian Federal	1				X	
<b>TOTAL</b>							<b>34</b>

## **Compliance and Certification Committee Confidentiality Protocol**

### **Action Required**

Approve the Compliance and Certification Committee's (CCC's) Confidentiality Protocol.

### **Summary**

The CCC Confidentiality Protocol (**Attachment 3**) protects the confidentiality of information that is submitted to, or created by, the CCC for the purpose of performing the CCC's Functions as described in the CCC Charter, the NERC Rules of Procedure and relevant orders of any applicable ERO Governmental Authority. CCC Members, their proxies, Authorized Representatives, and participants on a CCC Subgroup that are performing CCC Functions are subject to and must comply with the protocol.

### **Background**

Prior to the reorganization of the CCC in 2007, all CCC members were required to sign a Confidentiality Agreement. However, it was later determined that such an agreement would no longer be adequate to protect confidential information for all of the functions of the CCC. As a result, development of the CCC Confidentiality Protocol began in the spring of 2008, with approval in August 2008 by the CCC to post for industry comment. The Procedures Subcommittee of the CCC worked throughout 2009 to address the comments received and presented the final CCC Confidentiality Protocol to the CCC membership for email ballot on January 26, 2010. The email ballot was approved by the CCC with 18 votes to approve (including the proportional votes available to Regional Representatives) and 1 vote not to approve.

Key items in the CCC Confidentiality Protocol include: provisions to ensure the protection of confidential information by the CCC members, their proxies, Authorized Representatives, and participants in a CCC Subgroup performing CCC functions; and provisions to ensure that requests for confidential information, access to confidential information, and administration and retention of confidential information are handled appropriately. The CCC Confidentiality Protocol also includes a Non-Disclosure Agreement in Attachment A of the protocol, which must be executed by all CCC members, their proxies, Authorized Representatives, and CCC Subgroup participants prior to being granted access to confidential information.

# NERC

NORTH AMERICAN ELECTRIC  
RELIABILITY CORPORATION

## Confidentiality Protocol

## Compliance and Certification Committee

to ensure  
the reliability of the  
bulk power system

Version 1.1



<b>NERC Compliance and Certification Committee</b>		
<b>Title: Confidentiality Protocol</b>		
<b>Version: 1.2</b>	<b>Revision Date: n/a</b>	<b>Effective Date:</b>

**Revision History:**

<b>Date</b>	<b>Version Number</b>	<b>Comments</b>
June 1, 2009	1.0	Approved by the Compliance and Certification Committee
December 9, 2009	1.1	Revision by the PROCS to address stakeholder comments. Endorsed by the PROCS.
January 26, 2010	1.1	Revisions by NERC Legal.

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## 1. Purpose

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The purpose of this Compliance and Certification Committee Confidentiality Protocol (Protocol) is to protect the confidentiality of information that is submitted to, or created by, the Compliance and Certification Committee (CCC) for the purpose of performing the CCC's Functions, including but not limited to (*i.e.*, monitoring Functions, organization registration and certification Functions, mediation Functions and hearing Functions), as described in the CCC Charter, the NERC Rules of Procedure (NERC ROP) and relevant orders of any applicable ERO Governmental Authority. CCC Members, their proxies, Authorized Representatives and participants on a CCC Subgroup that is performing CCC Functions are subject to and must comply with this Protocol.

## 2. Definitions

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Generally, terms used in this Protocol have the definitions contained in the NERC ROP and the CCC Charter, unless otherwise stated.

**Authorized Representative** means the consultants or contractors to whom the CCC Chair or NERC Staff Coordinator appoints or delegates duties and who may require access to Confidential Information in order to perform such duties.

**Commission** means the Federal Energy Regulatory Commission (“FERC” or the “Commission”) or any successor thereto.

**Compliance and Certification Committee Charter** (“CCC Charter”) means the document approved by the Commission<sup>1</sup> that establishes the duties and Functions of the CCC.

**Compliance and Certification Committee Function** (“CCC Function” or “Function”) means those Functions described in Section 2 of the CCC Charter or the NERC ROP, including the Regional Entity Program Audit, described in the NERC ROP Section 402.

**Compliance and Certification Committee Member** (“CCC Member”) means a member of the CCC selected pursuant to Section 3 of the CCC Charter, a CCC member’s proxy, and for purposes of this Protocol only, any person participating on a CCC Subgroup that is performing a CCC Function.

**Confidential Information** means information designated as such pursuant to NERC ROP Section 1500, including but not limited to any reports, conclusions, investigation analyses, and other information created by or on behalf of the CCC.

**ERO Governmental Authority** means authorities identified as an “ERO Governmental Authority” and defined in the NERC ROP Section 200.

**Non-Disclosure Certification** means a certification signed by a CCC Member or Authorized Representative when access to Confidential Information is required.

**Staff Coordinator** means a member or members of the NERC staff that is designated in writing by NERC’s Director of Compliance Operations in consultation with the CCC Chair to serve as the Staff Coordinator and secretary of the CCC. The member of NERC Staff, as Staff Coordinator, is expected to act consistently with respect to his/her obligations to the CCC according to the CCC Charter and with respect to his/her obligations to NERC as its employee.

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<sup>1</sup> *North American Electric Reliability Corp.*, 119 FERC ¶ 61,248, *order on compliance filing*, 121 FERC ¶ 61,033 (2007).

## 2. Definitions

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**Subgroup** means a Subcommittee, Working Group or Task Force as described and defined in the Compliance and Certification Committee Charter.

## 3. Applicability

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CCC Members and Authorized Representatives receiving Confidential Information to carry out their CCC Function duties will follow the provisions of this Protocol. The Staff Coordinator shall follow NERC's Confidentiality policies. This Protocol will govern the use of all Confidential Information produced by, or on behalf of, any submitting entity and information created by, or on behalf of, the CCC and designated as Confidential Information.

Information to be treated as Confidential Information under this Protocol must be designated as such pursuant to Section 1500 of the NERC ROP and Section 5.1 of this Protocol.

In the event of a conflict between provisions in this Protocol and the NERC ROP, the NERC ROP governs.

## 4. Separation of Functions

The CCC Members and Authorized Representatives will, subject to the terms and provisions of this Protocol, keep and preserve the confidentiality of any Confidential Information that is submitted to the CCC, and between the CCC and any other organization, including NERC, that the CCC Members and Authorized Representatives may require in performing the CCC mission as defined in Section 1 of the CCC Charter.

The CCC Members and Authorized Representatives will require access to Confidential Information to perform various CCC Function tasks and such access shall be provided on an as needed basis only, such that access to Confidential Information within the CCC shall be restricted on a Functional basis so that there is no unauthorized sharing of Confidential Information by or between any of the various CCC Members and Authorized Representatives. To this end, any and all CCC Function tasks requiring Confidential Information shall be performed only by CCC Members and Authorized Representatives for specified or defined CCC Functions, and any Confidential Information that is provided to any CCC Subgroup for a specific Function shall not be disclosed, released, shared, or otherwise distributed to other CCC Subgroups without prior notification to the submitting entity and NERC Director of Compliance Operations by the CCC Chair or Staff Coordinator and an opportunity for the submitting entity and/or NERC to object to such disclosure in accordance with this Protocol and the NERC ROP. Disputes regarding disclosure shall be resolved in accordance with this Protocol and the NERC ROP.

Confidential Information shall be provided to a CCC Member or Authorized Representative as described. Confidential Information shall be provided to individual CCC Members and Authorized Representatives only after such persons have executed the Non-Disclosure Certification as described in this Protocol.

The Staff Coordinator and/or CCC Chair shall restrict access to Confidential Information by persons, including NERC Staff, subject to the provisions for access to Confidential Information in Section 7 of this Protocol.

## 5. Protection of Confidential Information

### 5.1 Identification of Confidential Information

NERC, a Regional Entity, an owner, operator, or user of the bulk power system or any other party (“the submitting entity”) shall mark as confidential any information that such submitting party submits to the CCC and reasonably believes contains Confidential Information as defined by NERC ROP 1500 and this Protocol. Documents designated as Confidential Information shall be marked in accordance with NERC ROP 1500. If the information is subject to a prohibition on public disclosure in the Commission-approved rules of a regional transmission organization or independent system operator or a similar prohibition in applicable federal, state, or provincial laws, the submitting entity shall so indicate and provide supporting references and details.

### 5.2 Confidentiality

The CCC Members and Authorized Representatives (collectively “recipients”) that receive or create Confidential Information during the course of or as a result of their participation in the CCC or any Subgroup or Function shall keep in confidence and not disclose or distribute any Confidential Information or any part thereof: (i) without the expressed permission of the submitting entity, or (ii) except as otherwise legally required in accordance with Section 1505 of the NERC ROP. Any information submitted to the CCC may be shared with the appropriate CCC Subgroup related to a specific Function as determined by the CCC Chair or the Staff Coordinator in accordance with the terms of the CCC Charter and this Protocol.

### 5.3 Information No Longer Confidential

If NERC receives notice from the submitting entity that information which is the subject of this Protocol is no longer deemed Confidential Information in accordance with NERC ROP Section 1502.3, the Staff Coordinator shall notify the CCC Chair. The CCC Chair shall then notify the CCC Members and Authorized Representatives that previously-deemed Confidential Information shall no longer be treated as Confidential Information.



## 6. Requests for Confidential Information

### 6.1 By Persons

Requests for Confidential Information submitted to the CCC by persons who are not CCC Members or their Authorized Representatives will be subject to the provisions of NERC Rules of Procedure Section 1503. The CCC shall advise NERC of the request for Confidential Information by such persons, and NERC will respond in accordance with the requirements of NERC ROP Section 1503.

### 6.2 By the ERO Governmental Authority

Requests for Confidential Information submitted to the CCC by ERO Governmental Authorities will be subject to the provisions of NERC ROP Section 1505. The CCC shall advise NERC of the request for Confidential Information by the Commission or other ERO Governmental Authority, and NERC will respond in accordance with the NERC ROP Section 1505.

## 7. Access to Confidential Information

### 7.1 General Provisions

Confidential Information that is provided to or obtained by a CCC Member and Authorized Representative, acting within the scope of his/her authority is deemed to be submitted to the CCC.

Access to Confidential Information within the CCC should be limited only to those CCC Members and Authorized Representatives who are participating members of a Subgroup related to a specific Function or that are performing a CCC Function and that is responsible for the matter in response to which the Confidential Information was submitted.

In the event that Confidential Information in the possession of a particular CCC Subgroup is required or requested by another CCC Subgroup, access to that Confidential Information will be granted only after prior notification to the submitting entity and NERC Director of Compliance Operations by the CCC Chair or Staff Coordinator and an opportunity for the submitting entity and/or NERC to object to such disclosure in accordance with this Protocol and the NERC ROP. Disputes regarding disclosure shall be resolved in accordance with this Protocol and the NERC ROP.

CCC Members and Authorized Representatives will not disclose the contents of Confidential Information or any other form of information that copies or discloses Confidential Information to anyone other than in accordance with this Protocol or NERC ROP, and any applicable protective order.

### 7.2 Authorized Representatives

Authorized Representatives to whom the Confidential Information is exposed shall keep, handle, and preserve such Confidential Information in accordance with the terms of this Protocol and NERC ROP.

### 7.3 Sharing of Confidential Information

CCC Members and their Authorized Representatives shall keep in confidence and not disclose, or distribute any Confidential Information or any part thereof without the permission of the submitting entity, except as provided in this Protocol and the NERC ROP or except as otherwise legally required.

### 7.4 Access to Confidential Information within the CCC

The Staff Coordinator or his/her designee will transmit Confidential Information between and among the Staff Coordinator's custody and storage and receiving CCC Members and Authorized Representatives. CCC Members and their Authorized Representatives will surrender or certify destruction of all Confidential Information in their possession to the Staff Coordinator or his/her designee upon: (i) written demand for the same from the Staff Coordinator, (ii) termination of their status as a CCC Member or Authorized

## 7. Access to Confidential Information

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Representative, and (iii) termination or wind up of the matter(s) associated with the Confidential Information.

## 8. Administration of Access to Confidential Information

### 8.1 Staff Coordinator and the CCC Chair Duties

The Staff Coordinator and CCC Chair will oversee compliance with this Protocol and the Staff Coordinator will keep records of the signed Non-Disclosure Certifications.

The Staff Coordinator and the CCC Chair are responsible for granting access to Confidential Information to a CCC Member and/or an Authorized Representative in accordance with this Protocol and the NERC ROP.

The Staff Coordinator will (i) have possession of the keys to physical locations, and (ii) maintain a listing of issued passwords for electronic information to CCC Members and/or Authorized Representatives. The Staff Coordinator will be responsible for establishing business procedures for managing Confidential Information applicable to the CCC, in accordance with the NERC procedures for protection of similar information.

The Staff Coordinator and CCC Chair will be mindful of the need to keep Confidential Information obtained or created by the CCC separate from CCC general files and other files.

### 8.2 Authorizing Access to Confidential Information

The CCC Chair, or his/her designee (including the Staff Coordinator), will ensure that only CCC Members and/or Authorized Representatives requiring access to Confidential Information to perform designated Functions will have access to Confidential Information and that access will be provided only after Non-Disclosure Certifications have been signed and returned to the Staff Coordinator. Only CCC Members and/or Authorized Representatives that have a demonstrated need for access and have signed the Non-Disclosure Certification will be provided access to Confidential Information.

The Staff Coordinator will oversee all physical access to areas storing Confidential Information and to all electronic access to Confidential Information in response to authorizations granted by the CCC Chair or his/her designee or the Staff Coordinator.

In the event that the CCC Chair has a conflict of interest in connection with a CCC matter, another CCC Member designated by the CCC Vice-Chair will administer the duties of the CCC Chair under this Protocol with respect to Confidential Information related to such matter.

### 8.3 Physical Access to Confidential Information

The Staff Coordinator will ensure that Confidential Information is stored in a secure and restricted location separate and apart from other NERC information.

The Staff Coordinator will ensure that Confidential Information is secured by locked doors or cabinets that are not publicly accessible and to which authorized CCC Members and/or Authorized Representatives may have access to during NERC's business hours. Confidential Information should not be removed from the secure location unless authorized in writing by the Staff Coordinator or CCC Chair.

### **8.4 Electronic Access to Confidential Information**

To the extent that any Confidential Information is stored on a non-networked computer or local area network ("LAN") that is shared between NERC and the CCC, access to the Confidential Information will be password protected and no person will have access to the Confidential Information without the CCC Chair's, or his/her designee's, authorization and without having first signed a Non-Disclosure Certification.

### **8.5 Termination of Access to Confidential Information**

Access to Confidential Information will be terminated in the event that any CCC Member or Authorized Representative to whom Confidential Information is disclosed ceases to be a CCC Member or changes its status in a manner that would cause it to lose its position as a CCC Member or Authorized Representative. Even if no longer a CCC Member or Authorized Representative, every person who has signed a Non-Disclosure Certification will continue to be bound by the provisions of this Protocol.

When a CCC Member's access to Confidential Information is terminated, access by any Authorized Representative of that CCC Member is also terminated.

Access to Confidential Information will be terminated for any CCC Member or Authorized Representative who ceases to require access to Confidential Information to perform delegated Functions.

## 9. Retention of Confidential Information

### 9.1 General Provisions

Confidential Information submitted pursuant to the CCC's Functions will be retained by the Staff Coordinator as provided for in the Section 9 of the NERC Compliance Monitoring and Enforcement Program and in accordance with the provisions of any applicable protective order.

### 9.2 Subgroup and Certain Functions

As provided for in the NERC ROP, Appendix 4C Section 9.2, the Staff Coordinator will retain Confidential Information received or created by the CCC for a minimum of five years unless an alternative retention period is specified by a Reliability Standard, an ERO Governmental Authority, or an applicable protective order.

### 9.3 Hearing Function

Confidential Information received pursuant to the CCC's hearing Functions (as is described in the CCC Charter and the applicable process and procedure) will remain available to the pertinent Hearing Panel until the later of the date that the Hearing Panel: (i) issues an order terminating the proceeding; (ii) the proceeding becomes no longer subject to judicial review; or (iii) the date that any NERC proceeding relating to the Confidential Information is concluded and no longer subject to judicial review.

## 10. Improper Disclosure

In accordance with the provisions in NERC ROP 1507, any person engaged in CCC, NERC, or Regional Entity activity or Functions under Section 215 of the Federal Power Act or the equivalent laws of other appropriate ERO Governmental Authorities who improperly discloses information determined to be confidential may on a temporary or permanent basis lose access under this Protocol to Confidential Information in connection with any CCC Function, and may be subject to adverse personnel and CCC action including termination of CCC membership. Nothing in this section precludes an entity whose information was improperly disclosed from seeking a legal or equitable remedy in an appropriate court.

## Non-Disclosure Certification

I am a:  CCC Member

Authorized Representative of: \_\_\_\_\_

**I am requesting access to Confidential Information in connection with the following CCC Function:**

- A. CCC Subgroup Subgroup Name:**
- Subcommittee Subcommittee Name: \_\_\_\_\_
- Task Force Task Force Name: \_\_\_\_\_
- Working Group Working Group Name: \_\_\_\_\_

- B. CCC "Function" Function Name:** \_\_\_\_\_
- Hearing Panel Proceeding Name: \_\_\_\_\_
- Mediation Panel Proceeding Name: \_\_\_\_\_

**C. Regional Entity Audit Observer**

Regional Entity Audit Name: \_\_\_\_\_

**D. Personnel Risk Assessment**

I hereby certify that I have completed and passed, at a minimum, a personnel risk assessment as identified in the Critical Infrastructure Protection Standards to the satisfaction of my employer or client. (A personnel risk assessment is required for access to Confidential Information governed by CIP standards.)

I hereby certify to my understanding that access to Confidential Information is provided to me pursuant to the terms and restrictions of the CCC Confidentiality Protocol. I hereby certify that I have completed a personnel risk assessment to the satisfaction of my employer or client. I understand that I have been given a copy of and have read the CCC Confidentiality Protocol and that I agree to be bound by it. I understand that the contents of the Confidential Information, any notes or other memoranda, or any other form of information that copies or discloses Confidential Information shall not be disclosed by me to anyone other than in accordance with the CCC



Confidentiality Protocol. I acknowledge that a violation of this Certificate constitutes a violation of the NERC Rules of Procedure, the CCC Charter, and the CCC Confidentiality Protocol and that such violation may subject me to the penalties provided therein.

Signature: \_\_\_\_\_ Print Name: \_\_\_\_\_

Title: \_\_\_\_\_ Employed By: \_\_\_\_\_

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

**TO BE COMPLETED BY THE CCC CHAIR OR HIS/HER DESIGNEE OR STAFF COORDINATOR:**

Access granted

Access denied

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

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



## **Performance Measure Task Force Update**

### **Action Required**

None.

### **Background**

Under the direction of the Compliance and Certification Committee (CCC), the Performance Measure Task Force (PMTF), initiated in September 2009, is developing a concepts document that includes:<sup>1</sup>

- 1) Recommendations for reliability risk-based compliance metrics, and
- 2) Proposed framework to measure reliability trends and provide feedback to industry from the compliance program.

PMTF has held monthly conference calls since October 2009 and has, adopted the open development process used by the Reliability Metric Working Group<sup>2</sup> (RMWG) as well as an agreed on a set of compliance principles. The table below lists current performance measures under consideration.

<b>Performance Measures Under Consideration</b>	
<b>Measure</b>	<b>Description</b>
Availability/timeliness of 'lessons learned'	Actionable 'lessons learned' guidance from audits, operating experience, violations and disturbances
Audit results timeliness	Posting timing for key findings and recommendations
Compliance culture	Compare self disclosed vs discovered violations
Feedback to 'results-based' standards initiative	Direct input to standards development process - focus on non-documentation vs documentation only
Feedback effectiveness/timeliness	Compliance results/feedback to registered entities and standards
Mitigation plan	Average duration of mitigation plan implementation
Resolution timeliness	Avg duration of CVI/CIQ and # of lessons learned issued
Violation Risk	Risk factor and severity level weighted average based on unmitigated violations

PMTF plans a liaison meeting with the RMWG in February and the OC/PC/CIPC in March 2010. The Task Force is preparing its preliminary report targeting the March CCC meeting to seek feedback, desiring approval in June 2010.

<sup>1</sup> The PMTF scope is available at <http://www.nerc.com/docs/compliance/pmtf/PMTF%20Scope%20-%20Final%20December%202009.pdf>.

<sup>2</sup> The RMWG's open process is available at [http://www.nerc.com/docs/pc/rmwg/RMWG\\_Metric\\_Report-09-08-09.pdf](http://www.nerc.com/docs/pc/rmwg/RMWG_Metric_Report-09-08-09.pdf).



**Texas Regional Entity (RE) Amended and Restated Delegation Agreement  
and Amended 2010 Business Plan and Budget**

**Action Required**

Approve the Texas Reliability Entity, Inc.'s (the New Texas RE) Amended and Restated Delegation Agreement with NERC (which includes Bylaws and Regional Reliability Standards Development Procedure for New Texas RE) and a New Texas RE Amended 2010 Business Plan and Budget.

**Summary**

“New Texas RE” was formed as a Texas non-profit corporation on January 1, 2010. New Texas RE will become the successor Regional Entity to the Texas Regional Entity (*i.e.*, the Original Texas RE, a division of the Electric Reliability Council of Texas (ERCOT)) within 60 days following approval of the New Texas RE Amended and Restated Delegation Agreement and the Amended 2010 Business Plan and Budget by FERC, and will operate independently and separately from ERCOT. This transition will therefore eliminate existing structural concerns about lack of independence of Original Texas RE in monitoring and enforcing compliance with reliability standards by ERCOT.

On January 18, 2010, the New Texas RE Board of Directors approved an Amended and Restated Delegation Agreement with NERC (including Bylaws and a Standards Development Procedure) and an Amended 2010 Business Plan and Budget. Members of the New Texas RE will vote to approve the Amended Bylaws in early February 2010. The NERC Finance and Audit Committee voted to approve the New Texas RE's Amended 2010 Business Plan and Budget on February 11, 2010. New Texas RE requests that the NERC Board of Trustees approve these documents for filing with FERC.

New Texas RE will consist of a hybrid Board of Directors, which will include the following:

- Four (4) Independent Directors;
- The New Texas RE's Chief Executive Officer;
- Two (2) stakeholder representatives (*i.e.*, a Chair and a Vice-Chair of the Member Representatives Committee); and
- Two (2) *ex officio* non-voting Directors consisting of the Chair of the Public Utility Commission of Texas and Public Counsel from the Texas Office of Public Utility Counsel.

NERC staff has verified that the New Texas RE Bylaws satisfy the Governance criteria set forth in Exhibit B to the pro forma regional delegation agreement, and that the New Texas RE Standards Development Procedure satisfies the 34 “Common Attributes” of an acceptable regional standards development procedure set forth in Exhibit C to the pro forma regional delegation agreement.

A clean version of the New Texas RE Delegation Agreement including all Exhibits and Attachments, and a redlined version against the current delegation agreement with Original Texas RE including all Exhibits and Attachments except the Bylaws, is provided with this

Agenda item. Original Texas RE does not have Bylaws, rather, the Bylaws included in Exhibit B to the Original Texas RE Delegation Agreement are the ERCOT Bylaws. In addition, a clean version of the New Texas RE Amended 2010 Business Plan and Budget, and a redline against the FERC-approved 2010 Business Plan and Budget of Original Texas RE, are provided with this agenda item.

### **Timing of the Transition**

The New Texas RE will perform the activities originally delegated to the Original Texas RE upon FERC approval of the New Texas RE Delegation Agreement and the Amended 2010 Business Plan and Budget, within 60 days of FERC approval (the Implementation Date).

New Texas RE plans to hire the employees of the Original Texas RE. Additionally, the Original Texas RE will transfer its assets (including bank accounts) to the New Texas RE. The boards of directors of the Original Texas RE and the New Texas RE will vote on an asset transfer agreement (referred to as a Separation Agreement) that will document the transfer of assets from the Original Texas RE to the New Texas RE. Furthermore, New Texas RE will take assignment of necessary contracts (*i.e.*, existing lease, required software, and other contracts) from the Original Texas RE.

New Texas RE and NERC will agree to and document a confidential plan to identify all on-going compliance and enforcement matters over which the New Texas RE will take responsibility, and will identify any pending compliance and enforcement matters relating to ERCOT (if any) for which NERC will be responsible for filing with FERC.

### **Costs Related to the New Texas RE Transition**

The New Texas RE will replace administrative services provided by ERCOT to the Original Texas RE under a Memorandum of Understanding as follows:

- New Texas RE will hire six (6) additional corporate services employees;
- New Texas RE will outsource certain information technology services at a cost higher than the amount paid by Original Texas RE to ERCOT;
- New Texas RE will be required to pay more for employee benefits than the amount paid by Original Texas RE for similar services and benefits; and
- New Texas RE will no longer share a Board of Directors with ERCOT and will pay a higher cost for its four (4) independent Directors.

New Texas RE will also be required to expend substantial start up costs for such things as furniture, software, information technology equipment (computers, telephone system, and servers), search firm expenses for independent directors, and contract assignments.

New Texas RE will use competitive processes to procure its outsourced administrative services. IT service costs estimates were determined based upon discussions with IT subject matter experts and Original Texas RE's experience with its current hosted services (for its website and portal). New Texas RE is in the process of procuring its outsourced IT vendors. Requests for Proposals and Requests for Quotes were distributed and posted on the Original Texas RE website in late January 2010. The New Texas RE expects to have IT services fully removed from ERCOT staff by May 2010.

A new HR Manager, expected to be hired in February 2010, will oversee the competitive sourcing and implementation of the outsourced employee benefits so that they are in place by the Implementation Date. The HR benefit costs were based on a mid-2009 estimate. With the exception of IT costs, outsourced administrative costs were estimated based on informal quotes and discussions with vendors. The Director's fee estimates were based upon compensation studies (*i.e.*, a 2007 custom survey completed by the ERCOT Board and a 2008 survey completed by the National Association of Corporate Directors).

The Amended 2010 Business Plan and Budget is increased by start-up costs of \$1,308,500, increased operational costs of \$1,012,610, and increased cash reserves of \$219,960 (based on a 75-day cash reserve), to a total of \$10,537,219 for Statutory and Non-statutory activities, as follows:

	<b>Statutory</b>	<b>Non-Statutory</b>	<b>Total Combined</b>
Previously Approved 2010 Budget	\$ 6,842,377	\$ 1,153,772	\$ 7,996,149
Net New Start Up Budget	1,308,500	-	1,308,500
Net New Operating Expenses	987,251	25,359	1,012,610
Additional Cash Reserve	215,212	4,748	219,960
Total Additional Budget Requirement	<u>2,510,963</u>	<u>30,107</u>	<u>2,541,070</u>
Proposed 2010 Budget	\$ 9,353,340	\$ 1,183,879	\$ 10,537,219
Increased Headcount	5.50	0.50	6.00



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

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**Texas Reliability Entity, Inc.,**  
**Successor to Texas Regional Entity,**  
**A Division of Electric Reliability Council of Texas, Inc.**

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

**Submitted:**

**August 17, 2009**

**January 8, 2010**

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Introduction

**Introduction**

Total Texas RE Resources				
(in whole dollars)				
2010 Budget	U.S.	Canada	Mexico	
Statutory FTEs	34,003,950			
Non-statutory FTEs	6,0050			
Total FTEs	40,460,000			
Statutory Expenses	\$6,920,642 9,216,393	\$6,920,642 16,393		
Non-statutory Expenses	\$1,423,772 149,132	\$1,423,772 149,132		
Total Expenses	\$8,044,414 10,365,525	\$8,044,414 365,525		
Statutory Funding	\$6,842,377 9,353,340	\$6,842,377 53,340		
Non-statutory(Member) Funding	\$1,453,772 183,879	\$1,453,772 183,879		
Total Funding	\$7,996,149 10,537,219	\$7,996,149 10,537,219		
NEL	310,856,852	310,856,852		
NEL %	100%	100%		

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**Organizational Overview**

Texas ~~Reliability~~ Entity, Inc. (Texas RE) is a new Texas non-profit corporation which was created to become the successor to the Texas Regional Entity (Texas RE) is an independent and functionally separate division of Electric Reliability Council of Texas, Inc. (ERCOT ISO), a Texas non-profit corporation which has an approved Regional Delegation Agreement with the North American Reliability Corporation (NERC) for the ERCOT region. The ~~vision and~~ purpose of Texas RE is to become the regional entity for the ERCOT region and to preserve and enhance reliability across the ERCOT region by encouraging a culture of compliance among all users, owners, and operators of the Bulk-Power System (BPS).

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The ERCOT region is the geographic area located within the State of Texas that operates under the jurisdiction of the Public Utility Commission of Texas (PUCT) and is not synchronously interconnected with any electric utilities operating outside of Texas. The ERCOT region includes approximately 200,000 square miles and 85% of Texas load.

In May 2007, the Texas Regional Entity division of ERCOT ISO (Original Texas RE) executed its Delegation Agreement with North American Electric Reliability Corporation (NERC), the Electric Reliability Organization (ERO) certified by the Federal Energy Regulatory Commission (FERC), pursuant to Section 215(c) of the Federal Power Act (FPA). In response to subsequent orders by the Commission, Original Texas RE and NERC signed Amended and Restated Delegation Agreements on March 28, 2008 and January 3, 2009.

In the May 2007 Delegation Agreement and the March 28, 2008 and January 3, 2009 Amended and Restated Delegation Agreements (collectively "the Original Delegation Agreement"), NERC delegates/delegated to Original Texas RE certain responsibilities and authorities of a regional entity as defined in the FPA, regulations adopted by the Commission (including but not limited to Order Nos. 672 and 672-A in Docket No. RM05-30-000), and other directives of the Commission, including the authority to propose, develop, monitor, assess, and enforce reliability standards and regional standards and variances within the ERCOT region, in accordance with the NERC Rules of Procedure (ROP). Texas RE's These activities under the Original Delegation Agreement and the proposed new Delegation Agreement for Texas RE are referred to herein as Statutory activities.

In addition to Texas RE's Statutory activities, Texas RE monitors, investigates, audits, and reports Texas RE seeks, concurrently with the submission of this 2010 Amended Business Plan and Budget, to be approved as a regional entity and take over the performance of the Statutory activities under a new or amended Delegation Agreement with NERC ("Delegation Agreement"). Texas RE intends to begin its performance of the delegated activities as a successor to Original Texas RE approximately sixty (60) days after FERC approves the Delegation Agreement and this proposed 2010 Amended Business Plan and Budget. The date upon which Texas RE begins to perform under the Delegation Agreement (and Original Texas RE ceases performance of regional entity delegated functions under the Original Delegation Agreement) is referred to herein as the "Implementation." In preparing this 2010 Amended Business Plan and Budget, the Implementation is projected to occur on July 1, 2010; however, the amount of start-up and incremental operating costs that Texas RE expects to incur in 2010 would not be significantly affected were the Implementation to be one to two months earlier or later than this date.

Beginning with the Implementation, in addition to performing the Statutory activities, Texas RE will also monitor, investigate, audit, and report on compliance with the ERCOT region reliability-based Protocols and Operating Guides (Protocols) for the PUCT, pursuant to as a transition of the PUCT-approved ERCOT Compliance Process. Texas RE's activities performed by Original Texas RE, through at least December 31, 2010. These Protocol compliance activities are referred to herein as Non-Statutory activities. Texas RE ~~coordinates~~ will coordinate with PUCT staff regarding enforcement of potential Protocol violations, ~~but~~ and the PUCT ~~prosecutes~~ will prosecute any Protocol violations that result in enforcement actions. Due process is provided to any entity that is reported to have violated a Protocol, pursuant to state law, and the PUCT makes all final decisions regarding Protocol violations.

### Overview of the Texas RE proposed 2010 Amended Business Plan and Budget

Texas RE's proposed 2010 Amended and Restated Business Plan and Budget (referred to herein as "Amended Budget" or "Proposed Budget") includes (A) the expenditures required by Original Texas RE under its previously submitted and approved 2010 Business Plan and

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Budget<sup>1</sup> (referred to herein as "Approved Budget") until Implementation, which is estimated herein to be July 1, 2010, and (B) the expenditures required by Texas RE in 2010 for its start up costs and for operating expenses it incurs in 2010 as a regional entity, beginning at Implementation. In addition, the 2010 Amended Budget recognizes, through appropriate adjustments to the Working Capital Reserve Analysis, certain major cost impacts that were not recognized in the 2010 Approved Budget submitted by Original Texas RE to NERC in July and August 2009 and by NERC to the Commission in August 2009, but have manifested subsequent to August 2009.

In general, the organization of the 2010 Amended Budget follows the organization of the 2010 Approved Budget except where revisions are needed to describe the impacts of the above-described changes. In addition, in several instances in which an assumption is mentioned that is now known to be incorrect (for reasons unrelated to the formation of Texas RE as a separate entity), the fact that the assumption is no longer valid is noted. (A separate, redlined version of the 2010 Amended Budget against the 2010 Approved Budget is also being provided.) Further, in the Statements of Activities and the summary tables for each statutory program, the values for the 2010 Approved Budget, the incremental costs due to the separation of Texas RE, and the resulting 2010 Amended Budget, are shown.

Original Texas RE will continue to perform under the Original Delegation Agreement and its approved 2010 Business Plan and Budget until Implementation, when Texas RE will begin to perform the Statutory and Non-statutory activities under a new Delegation Agreement. Original Texas RE will hire some of the additional employees required by new Texas RE prior to Implementation, to help prepare for the Implementation and for the prior transition of many of the administrative services that were performed for Original Texas RE by ERCOT ISO under the Memorandum of Understanding which was attached to the Original Texas RE 2010 Business Plan & Budget filing (MOU).

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

### **Membership and Governance**

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

- System Coordination and Planning - An entity that ~~is an independent division~~ registered with NERC as a Reliability Coordinator (RC), Balancing Authority (BA), Planning Authority (PA), Resource Planner (RP), or Interchange Authority (IA).

<sup>1</sup> See Request of the North American Electric Reliability Corporation for Acceptance of its 2010 Business Plan and Budget and the 2010 Business Plans and Budgets of Regional Entities and for Approval of Proposed Assessments to Fund Budgets, filed August 24, 2009 in Docket RR09-9-000; and Order Conditionally Accepting 2010 Business Plan And Budget of the North American Electric Reliability Corporation and Ordering Compliance Filings, 129 FERC ¶ 61,040 (October 15, 2009)

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- Transmission and Distribution - An entity that is registered with NERC as a Transmission Owner (TO), Transmission Planner (TP), Transmission Service Provider (TSP), Distribution Provider (DP), and/or Transmission Operator (TOP), and is not a Cooperative or Municipal Utility.
- Cooperative Utility: An entity that is (a) a corporation organized under Chapter 161 of ERCOT ISO, members the Texas Utilities Code or a predecessor statute to Chapter 161 and operating under that chapter; or (b) a corporation organized as an electric cooperative in a state other than Texas that has obtained a certificate of ERCOT ISO are also members authority to conduct affairs in the State of Texas RE. These members can be from any ERCOT ISO Segment (as listed below), and, except; or (c) a cooperative association organized under Tex. Rev. Civ. Stat. 1396-50.01 or a predecessor to that statute and operating under that statute that is registered with NERC for the Consumer Segment, must have an actual financial interest in the at least one reliability function.
- Municipal Utility: An entity that owns or controls transmission or distribution facilities, owns or controls dispatchable generating facilities, or provides retail or wholesale electric market electric service and is a municipally owned utility as defined in PURA §11.003 and is registered with NERC for at least one reliability function.
- Generation: An entity that is registered with NERC as a Generator Owner (GO) or Generator Operator (GOP).
- Load-Serving and Marketing: An entity that is registered with NERC as a Load Serving Entity (LSE), a Purchasing-Selling Entity, or any newly defined NERC reliability function for demand response.

Membership in Texas RE is voluntary and open to any entity that is a user, owner, or operator in the ERCOT region and be able to do business in one of these markets. ERCOT ISO BPS, who registers with Texas RE and complies with the Texas RE bylaws requirements. Texas RE charges a nominal fee for membership, but the membership fee can be waived upon good cause shown. Any person or entity that has a direct and material interest in the BPS has a right to participate in the Texas RE Standards Development Process, even if not a Texas RE member.

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

Texas RE's board is comprised of the sixteen (16) directors of the ERCOT ISO board, including the Texas RE is governed by a hybrid board of directors (Board), comprised of the following nine (9) directors:

- The Texas RE Chief Executive Officer
- The Chair of the PUCT, as an ex officio non-voting member, the ERCOT ISO CEO as an ex officio voting member, five (5) Unaffiliated Directors (not affiliated with any ERCOT ISO market participant), and directors from the following market Segments:

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- ~~Three (3) Consumers:~~
  - ~~Texas Public Counsel, from the Texas Office of Public Utility Counsel (representing residential consumers and small commercial consumers, as an ex officio non-voting member~~
    - ~~Large Commercial Consumer (peak demand >1000 kilowatts)~~
    - ~~Industrial Consumer~~
- ~~One (1) Four (4) Independent Retail Electric Provider (and one segment alternate) Directors~~
  - ~~One (1) Generator (and one segment alternate)~~
  - ~~One (1) Independent Power Marketer (and one segment alternate)~~
  - ~~One (1) Investor Owned Utility (and one segment alternate)~~
  - ~~One (1) Municipal (and one segment alternate)~~
  - ~~One (1) Cooperative (and one segment alternate)~~

~~The Texas RE directors maintain independence from their role as ERCOT ISO directors by holding board and committee meetings separately from ERCOT ISO meetings and by not having any role regarding Texas RE's Statutory compliance and enforcement activities (as described below).~~

- ~~Two (2) Member Directors (the Chair and Vice-Chair of the Member Representatives Committee).~~

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

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

## Statutory Functional Scope

In accordance with the Delegation Agreement and in compliance with the NERC ~~ROP~~ Rules of Procedure (NERC ROP), Texas RE performs the following Statutory Functions:

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- Propose and participate in the development of reliability standards, or modifications thereof and propose and develop needed regional standards or variances through Texas RE's Standards Development Process.
- Monitor and enforce approved reliability standards, including the registration of responsible entities and, as needed, the certification of such entities within the ERCOT region, through the Compliance Monitoring and Enforcement Program (CMEP).
- Perform other delegation-related services on behalf of NERC, in furtherance of NERC's responsibilities as the ERO under the FPA, including:
  - Assessment and performance analysis of the present and future reliability, adequacy, and security of the BPS.
  - Promote effective training and education of reliability personnel and assist in the certification of operating personnel.
  - Promote situational awareness and the security and protection of critical infrastructure.

## 2010 Key Assumptions

The key assumptions for Texas RE's 2010 Amended Budget include the following:

- Original Texas RE will remain functionally separate from ERCOT ISO and will continue to receive at least some administrative services (including human resources and support possibly information technology services) from ERCOT ISO through a memorandum of understanding (which was amended as of February 16, 2009 and ~~is was~~ attached ~~with to~~ the Original Texas RE 2010 Business Plan & Budget filing ~~as exhibit A(MOU))~~ until the Implementation.
- ~~Texas RE will enhance its 60 day cash reserve established~~ be legally separate from ERCOT ISO, will not obtain administrative or other services from ERCOT ISO, and as a result will be required to pay more for some of the administrative services and employee benefits than Original Texas RE paid through the MOU, including:
  - Texas RE will hire six (6) additional corporate services employees not required in 2009 with the Original Texas RE 2010 Business Plan and Budget
  - Texas RE will outsource certain information technology services at cost higher than the amount paid by Original Texas RE to ERCOT ISO under the MOU
  - Texas RE will be required to pay more for employee benefits than the amount paid by Original Texas RE for similar services under the MOU
- Texas RE will use competitive processes, to the extent feasible, to procure the administrative services, goods, and employee benefits formerly provided to Original Texas RE under the MOU.
- Texas RE will be required to expend substantial start up costs for such things as furniture, software, information technology equipment (computers, telephone system, and servers), search firm expenses for independent directors, and contract assignments.
- Texas RE will maintain a 75-day cash reserve in 2010. ~~Texas RE still possesses unspent funds that will offset this amount.~~
- The Delegation Agreement requirements and NERC expectations will be ~~constant~~ consistent with those under the current Delegation Agreement between NERC

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and Original Texas RE (without taking into account, for purposes of the 2010 Amended Budget, changes that may result from the currently ongoing renegotiation of the Delegation Agreements between NERC and the Regional Entities).

- Texas RE will use anythe surplus funds transferred from the ~~prior year~~Original Texas RE, and any penalty funds received by Original Texas RE or Texas RE prior to July 1, 2009, to offset 2010 funding requirements. All unanticipated expenses incurred in 2009 by Original Texas RE are offset by 2009 underspending in other areas; so, the surplus funds in the 2010 Approved Budget have not changed.
- The number of registered entities ~~is~~and the current audit frequency are expected to remain fairly constant, except as specifically described herein ~~(e.g. the Load Serving Entity function) and the current audit frequency will remain constant.~~
- The number of contested enforcement and registration cases will remain low~~fairly low in 2010 but will be slightly higher than originally estimated by Original Texas RE~~ – one to two large or two to three small-to-mid-sized disputes per year.
- ERCOT ISO will continue to take primary responsibility for the research and preparation of the seasonal and long-term reliability assessments, with Texas RE responsible for ~~coordination and review of such assessments~~coordinating, reviewing, and providing comments on such assessments, and ensuring timely submission to NERC. This is a changed statement of this assumption from the approved Original Texas RE Approved 2010 Budget.
- NERC, Texas RE, and the other regional entities will continue to invest in technology improvements and process automation to improve efficiency and increase national consistency.
- ~~Texas RE~~NERC will lead the audits ~~&~~, other compliance monitoring processes, and enforcement of ERCOT ISO. ~~Although NERC will participate, NERC will not charge during the time Original Texas RE is the regional entity under the Delegation Agreement (until Implementation). This is a changed assumption from the approved Original Texas RE a fee for 2010 Approved Budget.~~
- NERC will charge Original Texas RE fees to cover NERC's participation costs for its leadership/performance of compliance monitoring and enforcement activities of ERCOT, but Original Texas RE and Texas RE will fund any such fees out of reserves. (NERC's costs will include its personnel expenses, travel expenses, an allocation of overhead based upon the time spent performing the function, and any other costs incurred specifically related to performance of compliance monitoring and enforcement activities in the Region. The impact of such costs incurred in 2009 was offset by positive variances in other areas and did not require an adjustment to the Working Capital Reserve.)
- Texas RE has not budgeted to conduct CIP audits of nuclear facilities.
- Texas RE estimated the budget immediately required for the evaluation of Technical Feasibility Exception (TFE) requests based upon the information available at this time.

## 2010 Goals and Key Deliverables

Texas RE's Goals and Key Deliverables for 2010 are as follows:

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1. Improve reliability through rigorous monitoring and enforcement of compliance with mandatory standards, in accordance with the Delegation Agreement and the CMEP
  - a. Maintain registrations for responsible entities.
  - b. Monitor compliance of registered entities in the ERCOT region with mandatory standards, while adopting risk-based methodologies to optimize reliability benefits and improving quality and timeliness.
  - c. Ensure timely and thorough mitigation of all violations of mandatory reliability standards.
  - d. Enforce registered entities' compliance with the mandatory standards, while improving timeliness.
  - e. Promote a strong culture of compliance excellence, reliability improvement, and risk-based methods among registered entities in the ERCOT region.
2. Effectively communicate with NERC, other regional entities, regulators, and industry stakeholders as follows:
  - a. Continue to build and improve cooperative relationships with other registered entities, industry stakeholders, and regulators through regular, consistent messaging regarding all of Texas RE's program areas.
  - b. Deliver a consistent message through the ~~new~~ Texas RE website and a variety of electronic media (including the bi-monthly newsletter) as a timely and efficient means of providing important information to the industry and the public.
3. Maintain effective financial controls and conduct Texas RE operations within the approved budget.
4. Effectively manage the Texas RE Standards Development Process
  - a. Participate in and encourage stakeholder participation in the development of national standards, in support of the NERC three-year plan
  - b. Propose and facilitate development of regional standards or variances that are needed to comply with NERC's three-year plan, FERC directives, and any ERCOT region-wide physical differences.
5. Continue to increase situational awareness and event analysis capabilities, to improve timeliness of root cause analyses and lessons learned and strengthen overall reliability.
6. Work with NERC and the other regional entities to develop appropriate procedures for auditing and monitoring cyber and physical security of critical infrastructure.
7. Efficiently adopt appropriate technology to increase efficiency and productivity.
8. Establish ~~Key Performance Indicators~~ key performance indicators and ~~Benchmarks~~ benchmarks for Texas RE operations.

## Overview of Cost Impacts

### In – Operating Expenses – of the 2010 Amended Business Plan and Budget

In the proposed 2010 Amended Budget, total direct Statutory expenses are increasing by 33% or \$1,686K \$1,921K (28.5%) in recurring direct operating expenses less reductions in payments to ERCOT under the MOU (“MOU reductions”) of \$787K, for a net increase of \$1,134K (16.8%) from the 2009 Budget 2010 Approved Budget. This increase includes reflects the additional expenses required effort to due to the legal separation of Texas RE and the elimination of the lower cost administrative services by ERCOT. This increase does not include the required one-time start-up costs to support the new TFE evaluation activity, which is 8% of the total increase formation of Texas RE as a structurally separate entity from ERCOT ISO (described below). The total recurring Statutory increase is primarily being driven by the following items:

1. Increased personnel expenses resulting from adding ~~eight (8)~~ six (6) additional staff (~~7.05~~ 5.50 FTEs Statutory, ~~.95~~ 0.50 FTEs Non-statutory) and salary and benefit increases for existing staff. The total increase for personnel expenses salaries is approximately \$1,445K 490K. Additionally, the expected increase in benefits expense for those employees is \$156K. This results in a total Statutory personnel expense increase of \$646K due to the new separate corporate entity and elimination of administrative services from ERCOT ISO.
2. Increased technology and capital expenditures, including \$288K increase in the Texas Regional Entity Compliance Portal projects, document management system project, and other management and reporting tools to improve quality, efficiency and consistency of reporting total \$207K
3. Increased cash reserves total \$516K which in 2010, does not impact Contracts & Consultants category for recurring board-related expenses. This cash reserve is being funded through unspent funds from prior years (Texas RE's regulatory liability) appearing on Texas RE's balance sheet and does not appear on the statement of activities. We are listing it for disclosure purposes.
4. Increased travel costs associated with NERC and Regional Entity meetings and compliance audits total \$87K.
- 5.2. Increased cost of and increased administrative services received from ERCOT ISO through expenses incurred under the MOU total \$185K offset by reductions for new employees prior to and in rent expense and facilities services year-over-year of \$190K preparation for Implementation.
3. The Operations Training Seminar is budgeted \$230K increase in 2010 Texas RE Office Rent expenses related to accommodate a venue change that occurred meeting space needs, increase in 2009. This resulted facility and maintenance expenses (for services previously provided under the MOU), and estimated expenses for a potential 2010 office move for Texas RE (since its lease expires in increased costs; however these costs were funded by seminar attendees through December 2010).
4. \$4K increase in Office Cost expenses due to additional office supplies and printing for new employees, membership, and items related to the formation of the new corporation.

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5. \$597K for increased Professional Services expenses:
  - a. \$71K for increased employee benefit administration for employees (since these benefit administration services will no longer be provided under the MOU and will cost more from a third party vendor, based upon initial verbal quotes from potential vendors).
  - b. \$51K for additional recruitment expenses.
  - c. \$181K for the estimated increased technology expenditures (based upon preliminary discussions with vendors at the beginning of our competitive process), due to the increased cost of information technology (IT) support services from third-party vendors that will replace the services provided to Original Texas RE by ERCOT under the MOU.
  - d. \$64K for the increased cost accounting services from third-party vendors (based upon initial verbal quotes from potential vendors) instead of under the MOU.
  - e. \$43K for the cost of outsourced internal audit function (formerly included in the MOU).
  - f. \$83K for the estimated increased cost for general liability, property and casualty, Directors & Officers, and Errors & Omissions insurance coverage when it is separated from ERCOT's insurance.
  - g. \$15K for an increase in the cost of security services (based upon discussions with vendors), which were previously obtained under the MOU.
  - h. \$90K for increased outside legal expenses, due to the expectation of a greater number of, and scope of, enforcement and registration fees. For appeals during 2010, the than was assumed in the 2010 Approved Budget. These increased legal expenses are not due to the formation of the new entity or the elimination of the MOU.
6. \$9K increase in the miscellaneous expense category due to the treasury fees to be incurred for start-up and on-going cash management services (formerly provided under the MOU).
7. \$147K for increased depreciation expense.
8. The above-listed costs are offset by reduced spending on costs that were estimated to be incurred under the MOU of \$787K. The detailed breakout of the \$787K in reductions is: \$560K in MOU reductions related to Consultants & Contracts, \$193K in MOU reductions related to office rent, and \$34K in reductions related to Professional Services.

## Overview of Cost Impacts – Texas RE Start-Up Costs

In the proposed 2010 Amended Budget, total direct Statutory start-up costs are budgeted at \$1,162K, comprised of \$217K of operating expenses and \$1,092K of capital additions, offset by

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increased depreciation expense of \$147K. These costs are one-time costs that will not reoccur in future years. The total increase is primarily being driven by the following items that Texas RE must procure from independent third party vendors to replace the goods and services currently provided to Original Texas RE under its MOU with ERCOT ISO:

1. Texas RE must procure IT assets and establish an independent IT environment that operates without the assistance of ERCOT ISO. The expected increase year-over-year is approximately \$110K. This amount capital costs are budgeted at \$634K.
2. Texas RE will procure an accounting system to process all of the accounting data; this is budgeted at \$41K.
- 6.3. Texas RE will also procure office furniture, workstations for employees, as well as conference room furniture, etc.; these are capital additions and are expected to be similarly funded through the seminar registration fees attendees pay total \$317K.
4. Texas RE is also budgeting for the recruitment fees anticipated with securing four (4) independent directors. This search fee is expected to be \$200K.
5. Texas RE must expend approximately \$17K for the set-up and implementation of the HRIS, Payroll, and Expense Reporting systems.
6. \$100K for a Texas RE Compliance and Enforcement Data Management System (a database tool designed to allow employees to efficiently and flexibly retrieve, view, and analyze registered entity compliance and enforcement information while maintaining data integrity and completeness and reducing the amount of employee time spent manually managing data).
7. Finally, the above costs are offset by the increased depreciation expense of \$147K.

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Introduction

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## Detailed Business Plans and Budgets by Program

Details of the planning, operation, review, and adjustment for each program area are included in Section A. The corresponding budget details are shown in Section B.

**Section A — 2010 Business Plan**

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**Reliability Standards Program**

Reliability Standards Program Resources			
(in whole dollars)			
2009 <del>2010</del> Approved Budget		2010 Amended Budget	
Increase (Decrease)			
Total FTEs	<del>1.70</del> 2.06	2.06	0.36 <del>00</del>
Total Direct Expenses	<del>\$176,491</del> 273,959	\$273,959	<del>\$97,468</del> 0
Total Indirect Expenses <sup>2</sup>	<del>\$287,778</del> 136,410	<del>\$136,410</del> 228,439	<del>(\$151,368)</del> 92,029
Total Expenses	<del>\$464,269</del> 410,369	<del>\$410,369</del> 502,398	<del>(\$53,900)</del> 92,029

Texas RE Standards staff facilitates the development of regional standards and variances, in accordance with the Texas RE Standards Development Process, which was approved as Exhibit C to the Delegation Agreement. Texas RE standards staff coordinates and publicly posts information regarding the activities of the Reliability Standards Committee (RSC) and all standards drafting teams (SDTs).

The Texas RE Standards Development Process is open to all organizations that are materially affected by the ERCOT region BPS, with no undue financial barriers. Any such entity has the right to participate by expressing an opinion, having its opinion considered, and having the right to appeal. Notice of all meetings of the Texas RE RSC and all drafting teams are provided on the Texas RE website and are open to the public.

The Texas RE Standards Development Process provides for a balance of interests, containing ~~seven market segments~~ six Sectors and a requirement of a vote of at least two-thirds of the ~~segments~~ sectors for approval of any regional standard. ~~The first Texas RE Standard Authorization Request (SAR), SAR-001, proposed to add an additional market segment, with a~~

<sup>2</sup> Indirect funding is calculated by allocating all administrative services funding to the operational program areas on a proportional FTE basis.

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## Section B — 2010 Regional Entity Budget

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~~¼ vote, for ERCOT ISO and has been approved by NERC and filed with FERC.~~ No two ~~segments~~Sectors can approve, and no single ~~segment~~Sector can defeat any matter. In addition, each of the ~~current seven segments has six Sectors with~~ at least two members has two representatives on the RSC. Currently, 47 entities have joined the RBB, representing about 25% of all Texas RE members.

Texas RE's Standards Development Process provides for fair and due process by providing sufficient public notice of the intent to develop a regional standard. In addition, all proposed standards are posted on the Texas RE Reliability Standards Tracking site for public comments. The site allows all interested parties to submit comments during the commenting period. This process also provides an appeals process.

The RSC meets once a month. The SDTs meet as necessary and include WebEx participation. In addition to facilitating all meetings, Texas RE Standards employees are directly involved in the non-technical aspects of the drafting of the standards. Texas RE Compliance employees also provide technical support, as requested. To promote wider awareness of and participation in the reliability standards process throughout the ERCOT region, Texas RE launched the Reliability Standards Tracking site in 2008. The tool allows all registered parties to efficiently submit comments on SARs and draft standards during commenting periods and allows members of the Registered Ballot Body (RBB) to vote online.

Texas RE staff supports and participates in the NERC Standards Committee and Regional Reliability Standards Working Group and has contributed to the 2009-2011 NERC Work Plan. The Texas RE Manager of Standards was nominated and accepted into the NERC Communications and Planning Subcommittee of the NERC Standards Committee. In addition, the Texas RE staff review draft reliability standards from other regions, and staff from other regional entities review draft Texas RE regional standards.

Texas RE informs stakeholders of the impact and requirements of emerging NERC standards through training at the Texas RE workshops. In general, Texas RE works to ensure that stakeholders have the most current and accurate information on reliability standards. ~~procedures~~Procedures, forms, meetings, minutes, notes, agendas, drafts, etc., for all regional activities associated with standards are posted in a timely fashion on the Texas RE website. Market notices on major topics and upcoming meetings are sent regularly to Texas RE email lists. Articles on reliability standards topics are included in the bi-monthly Texas RE newsletter.

### 2010 Key Assumptions

- Standards workflow remains constant, with no more than four (4) new SARs being developed during 2010.

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- Standards program staffing is complete with two full time equivalent employees (FTEs) to maintain the continuation of existing SARs and development of potential new ones.
- Travel will increase in 2010 to meet goals of increasing participation in NERC and other regional committees and subcommittees.

### 2010 Goals and Key Deliverables

The goals of the Reliability Standards Program for 2010 are as follows:

1. Meet all FERC and NERC directives with regard to regional standards development and procedures and maintain effective relationships and communications with the standards staff at NERC and the other regional entities.
2. Develop regional standards program communications that educate and inform stakeholders and support the Texas RE Standards Development program objectives.
3. Work closely with NERC and registered entities within the Texas RE footprint to develop regional standards that go beyond, add detail to, or implement NERC Reliability Standards; obtain a regional variance; or otherwise address issues that are not addressed in NERC Reliability Standards.
4. Ensure consistency and quality of regional standards without causing undue restrictions or adverse impacts on competitive electricity markets.
5. Ensure Texas RE Reliability Standards development process is aligned to meet agreed-upon expectations.
6. Streamline and improve the Texas RE's Standards Development Process and associated tools.
7. Participate and be actively involved in various NERC reliability standards ~~program~~ programs and related functions.
8. Continue to educate and inform the market participants to ensure adequate representation on the Registered Ballot Body.

To implement these goals Texas RE Standards staff is leading the RSC in developing a scope of work for the RSC to include more comprehensive review and comment to the existing and proposed NERC standards under development for tracking of possible regional variances that may be necessary with the associated continent-wide efforts. Texas RE Standards staff presented the RSC with the 39 standards development projects in the current NERC workplan and asked the RSC to rank them in importance. Ten projects emerged as most important to the ERCOT region. The RSC plans to have subject matter experts (SMEs) make one presentation each month on the 10 projects for evaluation as to any potential regional standard that may be

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**Section B — 2010 Regional Entity Budget**

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necessary. ~~A presentation on NERC Project 2006-03 System Restoration and Blackstart (EOP-005, 006, 007 and 009) was made at the March RSC meeting. Texas RE also supports revising the NERC Fill-in-the-Blank standards, and will help develop (as necessary) any regional standards that are subsequently required.~~

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

Texas RE Standards staff is considering having a regional standards workshop (a longer and more detailed presentation than the normal standards presentation made during the Compliance workshop), to allow ERCOT region stakeholders to learn about standards in general and the process for developing new regional and national standards. If this workshop is warranted, it would occur in the latter half of ~~2009-2010~~. Otherwise, Texas RE Standards staff will continue to include a standards section in the Compliance Workshop.

~~Stakeholders also~~ ~~Previously, stakeholders~~ submitted comments indicating that the NERC Fill-in-the-Blank standards have caused confusion. Texas RE supports the concept of revising the standards to remove the Fill-in-the-Blank components. Texas RE will develop (as necessary) any regional standards that are subsequently required.

A regional-wide announcement was sent out in December 2008 to update and solicit more RBB registrations, to ensure wider participation by all ~~segments-sectors~~. This announcement was part of the ballot pool solicitation and formation efforts for SAR-001. This resulted in the 47 RBB members as of February 28, 2009.

Texas RE Standards staff will increase its participation in NERC Standards Committee meetings to stay current on all NERC Standards under development for presentation to the ERCOT ISO stakeholders, and Texas RE will continue participating in the NERC Communication and Planning Subcommittee.

Section B — 2010 Regional Entity Budget

**Funding Requirements — Explanation of Increase (Decrease) Over 2010 Approved Budget**

The ~~Reliability Standards~~ funding requirements ~~reflects~~reflect an increase of ~~\$235K year-over-year~~150K from the 2010 Approved Budget for ~~two (2) reasons:~~

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

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**Section B — 2010 Regional Entity Budget**

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**Reliability Standards Program**

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

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Section B — 2010 Regional Entity Budget

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Reliability Standards					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
<b>Funding</b>					
<b>ERO Funding</b>					
ERO Assessments	\$ 176,491	\$ 176,491	\$ -	\$ 411,750	\$ 235,259
Penalty Sanctions	-	-	-	-	-
<b>Total ERO Funding</b>	<b>\$ 176,491</b>	<b>\$ 176,491</b>	<b>\$ -</b>	<b>\$ 411,750</b>	<b>\$ 235,259</b>
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
<b>Total Funding</b>	<b>\$ 176,491</b>	<b>\$ 176,491</b>	<b>\$ -</b>	<b>\$ 411,750</b>	<b>\$ 235,259</b>
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	\$ 127,238	\$ 159,073	\$ 31,835	\$ 184,729	\$ 57,491
Payroll Taxes	10,179	11,949	1,770	14,901	4,722
Benefits	14,320	10,126	(4,194)	20,489	6,169
Retirement Costs	18,450	21,800	3,350	26,697	8,248
<b>Total Personnel Expenses</b>	<b>\$ 170,187</b>	<b>\$ 202,948</b>	<b>\$ 32,762</b>	<b>\$ 246,816</b>	<b>\$ 76,629</b>
<b>Meeting Expenses</b>					
Meetings	-	304	304	400	400
Travel	4,344	3,389	(955)	6,824	2,480
Conference Calls	-	-	-	-	-
<b>Total Meeting Expenses</b>	<b>\$ 4,344</b>	<b>\$ 3,693</b>	<b>\$ (651)</b>	<b>\$ 7,224</b>	<b>\$ 2,880</b>
<b>Operating Expenses</b>					
Consultants & Contracts	-	-	-	-	-
Office Rent	-	-	-	-	-
Office Costs	1,960	456	(1,504)	480	(1,480)
Professional Services	-	10,938	10,938	18,824	18,824
Miscellaneous	-	470	470	615	615
Depreciation	-	-	-	-	-
<b>Total Operating Expenses</b>	<b>\$ 1,960</b>	<b>\$ 11,864</b>	<b>\$ 9,904</b>	<b>\$ 19,919</b>	<b>\$ 17,959</b>
<b>Total Direct Expenses</b>	<b>\$ 176,491</b>	<b>\$ 218,506</b>	<b>\$ 42,015</b>	<b>\$ 273,959</b>	<b>\$ 97,468</b>
<b>Indirect Expenses</b>	<b>\$ 287,778</b>	<b>\$ 211,201</b>	<b>\$ (76,578)</b>	<b>\$ 136,410</b>	<b>\$ (151,368)</b>
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total Expenses</b>	<b>\$ 464,269</b>	<b>\$ 429,707</b>	<b>\$ (34,562)</b>	<b>\$ 410,369</b>	<b>\$ (53,900)</b>
<b>Change in Assets</b>	<b>\$ (287,778)</b>	<b>\$ (253,216)</b>	<b>\$ 34,562</b>	<b>\$ 1,381</b>	<b>\$ 289,159</b>
<b>Fixed Assets</b>					
Depreciation	-	-	-	-	-
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
<b>(Incr)Dec in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Allocation of Fixed Assets	\$ (20,746)	\$ (20,746)	\$ -	\$ (1,381)	\$ 19,365
<b>Change in Fixed Assets</b>	<b>\$ (20,746)</b>	<b>\$ (20,746)</b>	<b>\$ -</b>	<b>\$ (1,381)</b>	<b>\$ 19,365</b>
<b>TOTAL CHANGE IN ASSETS</b>	<b>\$ (308,524)</b>	<b>\$ (273,962)</b>	<b>\$ 34,562</b>	<b>\$ (0)</b>	<b>\$ 308,524</b>

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Section B — 2010 Regional Entity Budget

<b>Statement of Activities</b>			
<b>2010 Approved Budget &amp; 2010 Amended Budget</b>			
<b>Reliability Standards</b>			
	2010 Approved Budget	2010 Adjustment to the Approved Budget	2010 Amended Budget
<b>Funding</b>			
<b>ERO Funding</b>			
ERO Assessments	\$ 411,750	\$ 149,650	\$ 561,400
Penalty Sanctions	-	-	-
<b>Total ERO Funding</b>	<b>\$ 411,750</b>	<b>\$ 149,650</b>	<b>\$ 561,400</b>
Membership Dues	-	-	-
Testing Fees	-	-	-
Services & Software	-	-	-
Workshops	-	-	-
Interest	-	-	-
Miscellaneous	-	-	-
<b>Total Funding</b>	<b>\$ 411,750</b>	<b>\$ 149,650</b>	<b>\$ 561,400</b>
<b>Expenses</b>			
<b>Personnel Expenses</b>			
Salaries	\$ 184,729	-	\$ 184,729
Payroll Taxes	14,901	-	14,901
Benefits	20,489	-	20,489
Retirement Costs	26,697	-	26,697
<b>Total Personnel Expenses</b>	<b>\$ 246,816</b>	<b>\$ -</b>	<b>\$ 246,816</b>
<b>Meeting Expenses</b>			
Meetings	\$ 400	-	\$ 400
Travel	6,824	-	6,824
Conference Calls	-	-	-
<b>Total Meeting Expenses</b>	<b>\$ 7,224</b>	<b>\$ -</b>	<b>\$ 7,224</b>
<b>Operating Expenses</b>			
Consultants & Contracts	\$ -	-	\$ -
Office Rent	-	-	-
Office Costs	480	-	480
Professional Services	18,824	-	18,824
Miscellaneous	615	-	615
Depreciation	-	-	-
<b>Total Operating Expenses</b>	<b>\$ 19,919</b>	<b>\$ -</b>	<b>\$ 19,919</b>
<b>Total Direct Expenses</b>	<b>\$ 273,959</b>	<b>\$ -</b>	<b>\$ 273,959</b>
<b>Indirect Expenses</b>	<b>\$ 136,410</b>	<b>\$ 92,029</b>	<b>\$ 228,439</b>
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total Expenses</b>	<b>\$ 410,369</b>	<b>\$ 92,029</b>	<b>\$ 502,398</b>
<b>Change in Assets</b>	<b>\$ 1,381</b>	<b>\$ 57,621</b>	<b>\$ 59,002</b>
<b>Fixed Assets</b>			
Depreciation	\$ -	\$ -	\$ -
Computer & Software CapEx	-	-	-
Furniture & Fixtures CapEx	-	-	-
Equipment CapEx	-	-	-
Leasehold Improvements	-	-	-
<b>(Incr)Dec in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Allocation of Fixed Assets	\$ (1,381)	\$ (57,621)	\$ (59,002)
<b>Change in Fixed Assets</b>	<b>\$ (1,381)</b>	<b>\$ (57,621)</b>	<b>\$ (59,002)</b>
<b>TOTAL CHANGE IN ASSETS</b>	<b>-</b>	<b>\$ -</b>	<b>\$ -</b>

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Section B — 2010 Regional Entity Budget

Explanations of Variances – Proposed 2010 Amended Budget versus 2009 Approved 2010 Budget

**Funding Sources**

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

**Personnel Expenses**

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

**Meeting Expenses**

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

**Operating Expenses**

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

**Indirect Expenses**

- Indirect expenses are ~~decreasing~~increasing by ~~\$\$151K year-over-year, through \$92K~~due to the identification of direct expenses that were previously budgeted in start-up costs and the increased administrative services costs of Texas RE. These increased indirect expenses were allocated to the direct statutory programs on the basis of proportional numbers of FTE employees in each statutory program. The result is a total of \$228K for indirect expenses through 2010.

**Other Non-Operating Expenses**

- N/A

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**Fixed Asset Additions**

- ~~There are no new direct fixed~~Fixed asset additions for this program; however, there is a slight increase due to the allocation of the increased administrative services' fixed assets. expenditures which are required for the start-up of Texas RE, in the amount of approximately \$58K, bringing the total fixed asset additions to \$59K for 2010.

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

Compliance Monitoring and Enforcement and Organization Registration and Certification Program Resources			
(in whole dollars)			
2009 Approved Budget		2010 Amended Budget	
Increase(Decrease)			
Total FTEs	<del>14.15</del> 21.74	21.74	<del>7.59</del> 0.00
Total Direct Expenses	<del>\$1,628,802</del> <del>\$3,465,857</del>	\$3,465,857	<del>\$1,837,055</del> 0
Total Indirect Expenses	<del>\$2,404,884</del> <del>\$1,438,898</del>	<del>\$1,438,898</del> 2,409,652	<del>(\$965,983)</del> \$970,754
Total Expenses	<del>\$4,033,683</del> 904,755	<del>\$4,904,755</del> 5,875,509	<del>\$871,072</del> 970,754

The purpose of Texas RE's Compliance Monitoring and Enforcement Program (CMEP) is to protect the reliability of the ERCOT region's Bulk-Power System (BPS) through ~~our~~ interactions with and oversight of the registered entities in the region. Texas RE is responsible for monitoring, assessing, and enforcing compliance with NERC Reliability Standards and regional standards for all registered entities in the ERCOT region. The CMEP activities make up the majority of the work currently done by Texas RE although Non-statutory work continues to be an important aspect of overall compliance in the ERCOT region.

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The CMEP focuses on four primary areas: properly registering organizations responsible for complying with reliability standards (Organization Registration and Certification), monitoring the registered entities for compliance with reliability standards (Compliance Monitoring), determining and reporting to NERC violations of reliability standards by registered entities (Enforcement), and ensuring correction of non-compliance and violations (Mitigation of Violations). Texas RE maintains processes and procedures for data gathering, reporting, investigating, auditing, assessing, penalizing and sanctioning violators, and mitigating non-compliance.

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Because the CMEP is still a relatively new program, Texas RE continues to develop policies and procedures to support the evolving requirements that are developed at the national level. Texas RE will continue to review its organizational structure, processes, procedures and document management with the intent to continuously improve the quality and timeliness of its

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work while also controlling the cost of compliance whenever possible. ~~The reliability of the BPS always remains the unquestionable number one priority of the organization.~~

In 2010, Texas RE is developing a software tool (Texas RE Compliance and Enforcement Data Management System) to allow Texas RE employees to efficiently and flexibly view, analyze, and retrieve Texas RE registered entity compliance and enforcement information (by registered entity, registered function, date, compliance monitoring process, technical feasibility exception request, settlement agreement, violation, etc.). The tool should increase the efficiency of compliance and enforcement personnel locating and analyzing relevant compliance and enforcement information as needed for performance of their duties. This tool will ultimately interface with the Texas RE document management system. This is a cost impact not included in the 2010 Approved Budget of Original Texas RE.

### Organization Registration and Certification Program Description and Functions

Texas RE is responsible for identifying and registering the owners, operators, and users of the BPS as registered entities in the ERCOT region per Section 500 of the NERC ROP. These registered entities are responsible for complying with all applicable reliability standards. Texas RE must maintain an accurate registration list of all entities, their contact personnel and the business relationships, as well as managing the Joint Registered Organization agreement process.

Texas RE has ~~246214~~ registered entities representing ~~334335~~ functions as of ~~May 15~~ November 30, 2009. The list of registered entities in the ERCOT region continues to evolve and currently includes:

- ~~442110~~ Generator Owners (GO)
- ~~7779~~ Generator Operators (GOP)
- 24 Transmission Planners (TP)
- 29 Transmission Owners (TO)
- ~~4346~~ Distribution Providers (DP)
- ~~4240~~ Purchasing Selling Entities (PSE)
- 1 entity – ERCOT ISO – with seven (7) functional registrations: Transmission Operator, (TOP), Reliability Coordinator, (RC), Balancing Authority, (BA), Planning Authority, (PA), Resource Planner, (RP), Transmission Service Provider, (TSP), and Interchange Authority (ERCOT ISO/IA)

Texas RE ~~created the~~ has a Stakeholder Management Department ~~in 2008 as the primary organization in Texas RE~~ with responsibility for registration, certification, training, communications, reporting, document management and reliability assessments ~~(discussed later). The plan was to provide.~~ This provides organizational focus for ~~Stakeholder~~ stakeholder management and services. ~~In practice in 2009, staffing levels have not been adequate to~~

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~~properly manage registration and certification in a timely fashion and some dissatisfaction was expressed by registered entities in the 2009 NERC survey.~~

~~In December 2008,~~ Texas RE will continue to use the compliance portal ~~launched its portal.~~ ~~The portal~~ by Original Texas RE in 2008, which allows registered entities to update or modify contact information and to submit self-certification response electronically. However, extracting data from the portal for submission to NERC continues to require manual intervention and quality control to validate entity changes. Texas RE has planned improvements for the portal to address issues such as reporting, and NERC is working toward completing its portal to allow a more efficient submission of this information. The updated Texas RE and NERC portals should be intended to reduce some of the administrative burdens on this program.

~~The management of Joint Registration Organizations (JRO) agreements adversely impacted work load in 2009 as this work has taken significant attention from staff to coordinate and approve. In addition, the~~ The implementation of the modified LSE registration criteria in 2008 resulted in significant challenges in the ERCOT region due to the unique market design of the ERCOT region (including competitive markets and a single Balancing Authority). ~~To avoid gaps, overlaps and registration appeals, Texas RE has spent approximately six (6) months working with stakeholders to obtain stakeholder feedback and facilitate a JRO design for LSE registration that eliminates all gaps, minimizes overlap, and reduces potential registration appeals. This process has been extremely beneficial with respect to improved communications and coordination with registered entities and is planned to be used again should a similar problem arise. A number of ERCOT region stakeholders have now agreed to a Joint Registration Organization (JRO) solution for the Load Serving Entity (LSE) function in the ERCOT region which should help to avoid gaps and overlaps and reduce the number of required registration appeals. The JRO has an effective date of January 1, 2010. Texas RE anticipates that most of the entities needed for registration as LSEs in the ERCOT region will participate in the LSE JRO, but it believes there might be some registration disputes by entities that do not participate in this JRO. Texas RE will need to register all LSEs that do not participate in the JRO.~~ Texas RE anticipates that the LSE JRO will result in a small increase in newly registered entities and a more significant increase in registered functions for existing entities. This reflects a change in assumptions from the 2010 Approved Business Plan and Budget, but Texas RE is not seeking additional resources for this area at this time.

Registration work is expected to remain at the current level ~~(which is higher than anticipated for 2009)~~ through 2010 due to on-going registered entity changes (changes in business names, mergers, acquisitions, asset sales, and reorganizations) and a possible JRO for the Transmission Operator (TOP) function (which could require TOP certification audits), ~~and anticipated participation in national discussions regarding modifications or additions to the Statement of Registry Criteria (such as LSE) and registered entity functions or responsibilities, to ensure that the issues unique to the ERCOT region are properly considered.)~~

Registration disputes ~~also~~ have the potential to adversely impact work load in the registration area. ~~Texas RE should finalize its second significant registration dispute in 2009.~~ The time expended by Original Texas RE on each registration appeal (none of which are currently pending) has been significant. Texas RE anticipates that registration disputes should reduce

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over time once the NERC functions and registration criteria stabilize, but Texas RE anticipates possible registration disputes in the LSE and TOP areas in 2010. This budget anticipates no additional significant changes in registration criteria in 2010.

~~Stakeholder Management has remained relatively constant in 2009 and is adequately staffed. Stakeholder Management has a records coordinator who is helping to organize and maintain the records and procedures that are important to Texas RE's internal compliance and enforcement case management. Texas RE plans to install document management software in late 2009, which will require transitioning of existing files and revisions to internal procedures but is expected to enable Texas RE to more efficiently manage documents and evidence, even as the volume of evidence maintained increases.~~

The extensive reporting requirements for NERC, FERC, and the Texas RE board continue to remain higher and more challenging than expected. Texas RE anticipates that this could reduce somewhat, but, as a fairly new enterprise that is trying to achieve consistency among eight regional entities and NERC, Texas RE anticipates that it will need to continue to expect meet extensive reporting obligations through 2010.

~~To improve the organization's ability to address the dissatisfaction with timely registration responses, the ongoing support of the registration and certification process, including JROs, appeals and coordination with NERC and the other regions, Texas RE is planning to add 1.0 staff (.85 FTEs Statutory, .15 FTEs Non-statutory) to Stakeholder Management in 2010.~~

Compliance Monitoring and Enforcement Program Description and Functions

Through a rigorous program of monitoring, audits, assessments, investigations, mitigation activities, and the imposition of penalties and sanctions for non-compliance with reliability standards, Texas RE strives to maintain a high level of reliability in the ERCOT region BPS. Ensuring the reliable operation of the BPS benefits all owners, operators, and users of the BPS in the ERCOT region.

In 2008, Texas RE divided its compliance staff into a Compliance Audit group and a Compliance Enforcement group in order to provide separation between the audit the other compliance and enforcement processes.

Texas RE uses a total of eight (8) monitoring and investigation processes to collect information to confirm compliance or a violation with NERC Reliability Standards:

1. Compliance Audits,
2. Self-Certifications,
3. Spot Checking,

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4. Compliance Violation Investigations (CVI),
5. Self-Reporting,
6. Periodic Data Submittals,
7. Exception Reporting,
8. Complaints.

**Compliance Audit**

Texas RE audits the reliability standards on a recurring basis using an approved audit plan coordinated with NERC and the other regions. Texas RE also augments the audit schedule based on regional needs. The Compliance Audit schedule follows a three or six-year cycle, depending on the entity's registration, and an audit report is issued for each audit.

~~In any year that a registered entity does not receive a Compliance Audit addition, in accordance with the NERC CMEP Implementation Plan, Texas RE requires ~~the~~each registered entity to complete a compliance Self-Certification using electronic forms developed in coordination with NERC and distributed by Texas RE-, regardless of whether the registered entity has had a compliance audit in that year.~~ The entity must certify its compliance or non-compliance with each designated measure and submit the Self-Certification form to the Texas RE by the date specified in Texas RE's request. Texas RE may require registered entities to also self-certify their compliance with reliability standards at other times as well. (This paragraph reflects a change in policy adopted subsequent to the submission of the 2010 Approved Budget.)

Texas RE's Compliance Audit group performs Spot Checks of registered entities to 1) confirm compliance certified on Self-Certifications, 2) follow up on Self Reports and Periodic Data Submittals, and 3) follow up on complaints, events, or other indications of non-compliance. Texas RE may perform Spot Checks by telephone, site visit, or a data or document request. Deficiencies found in Self-Certifications and Spot Checks are treated as if they were audit findings of violations.

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

The current plan for Texas RE is to support the 2010 Critical Infrastructure Protection (CIP) audit with the Compliance Audit staff. CIP experts will be staffed in the CIP budget; however, Texas RE intends to augment the CIP audit team with experienced auditors from the Compliance audit team in 2010. Texas RE has only one (1) registered entity that is required to be ~~auditably compliant~~Auditably Compliant with CIP 002 – 009 prior to January 1, 2011, but Texas RE plans to perform 2010 validation and testing of CIP methodologies for CIP 002 via a minimum of six (6) CIP Spot Checks of the 41 requirements contained in the reliability standards CIP 002 – 009. (The CIP FTEs are discussed in the Critical Infrastructure Information section.)

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Texas RE plans to add 1.0 staff (.85 FTEs Statutory, .15 FTEs Non-statutory) auditor to the Compliance Auditing department to address the increase in audit work load from the organic growth in regular audits and to support CIP audits and spot checks in 2010. This is in addition to the CIP experts and staff to support the TFE processing discussed in a later section.

Texas RE has a single Table 1 entity, ERCOT ISO, due to its registration as the sole TOP, BA and RC in the ERCOT Region. Texas RE scheduled the spot check in 2009 for this entity covering the thirteen requirements initially applicable to Table 1 entities. Texas RE's 2010 plan therefore does not include additional mandatory spot checks of these thirteen requirements (as is the case in most other Regions). In the latter half of 2010, Texas RE has budgeted for approximately 10 possible event-driven spot checks of CIP requirements for Table 3 entities that will be in the "Compliant" stage of the CIP implementation plan. The budget also includes a planned ERCOT ISO audit for the remaining 28 CIP-002 through 009 requirements not included in this year's spot check, after July 1, 2010 when these requirements become "Auditably Compliant" for Table 1 entities under the implementation plan. It also includes a spot check for the single BA's compliance with BAL-003, which was adopted after the 2010 Approved Budget was submitted.

### Compliance Enforcement

Texas RE has implemented a separate Compliance Enforcement group that processes alleged violations originating from audits, spot-checks, self-certifications, complaints, self reports, CIQs and CVIs. The Compliance Enforcement program activities include reviewing all potential alleged violations from any of the eight (8) defined processes, preparing and submitting notices of alleged violations, preparing Notices of Confirmed Violations, assisting NERC with Notices of Penalties, and managing settlement negotiations and hearings associated with contested violations. This group also reviews all mitigation plans and must confirm completion of all mitigation plans not verified during audit, using Spot Checks, when necessary.

Once a potential alleged violation is identified from any compliance monitoring process, the Compliance Enforcement group may begin a Compliance Inquiry (CIQ), Compliance Violation Investigation (CVI), or perform a Spot Check to gather additional information to assist with the final determination of a potential violation. A CIQ is initiated as an informal, non-public review of facts, circumstances, and information that is conducted to determine if a more formal CMEP activity (such as a Spot Check or CVI) should be initiated. The CVI process is a detailed and lengthy process used for the more serious or complicated potential violations. The Spot Check is a very efficient process to gather information to reach a final determination of a potential violation.

Documentation requirements for all Compliance Enforcement program activities and processes increased during 2009 to support due process and to address all NERC and FERC-required improvements. Texas RE expects the Compliance Enforcement program activities to continue to increase in 2010 due to the level of complexity to reach violation determination and penalty calculation.

Texas RE also anticipates additional work to support enforcement appeals. Since no significant penalties have yet been approved, there have not been any significant appeals in the ERCOT region. Texas RE is staffing to ensure that it will be prepared for 1 large or 2 smaller enforcement appeals.

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Texas RE plans to add an additional 1.0 staff (.85 FTEs Statutory, .15 FTEs Non-statutory) in 2010 to accommodate the work load in Compliance Enforcement.

### 2010 Key Assumptions

#### Organization Registration and Certification

- Additional JRO workload due to LSE and ~~possible~~ TOP registrations.
- Certification ~~audit~~ audits for a maximum of 4 ~~new~~ TOPs (registered by JRO) might be performed.
- A maximum of two small to medium or one large registration dispute will occur in 2010. (This is a new assumption not included in the 2010 Approved Business Plan and Budget of Original Texas RE.)
- No additional NERC functions will be added or substantially modified by or during 2010.
- The Texas RE and NERC Portals will be fully functional and supporting electronic reporting of registration information to NERC by late 2010.
- Document management software will be installed in ~~2009~~ mid-2010 and fully operational ~~in by late~~ 2010.

#### Compliance Audit

- Audits will require an average of three (3) full days for the team to conduct the audit, with additional time required for preparation of audit notification, review of submitted responses prior to the audit and completion of the audit reports, ~~similarly similar~~ to the audits performed by Original Texas RE in 2009.
- Spot checks of requirements will be incorporated in the audit team schedule based on system events, self-certification results and complaints. A maximum of 20 entities will have a spot check, (including the ~~six (6)~~ ten (10) Spot checks of CIP 002 – 009 standards listed below) conducted in the second half of the year.
- Develop and implement the Texas RE Compliance and Enforcement Data Management System – this is a new assumption not reflected in the 2010 Approved Budget of Original Texas RE.
- NERC will not lead audits or other compliance activities of ERCOT ISO after implementation (which is a new assumption not reflected in the 2010 Approved Budget).

#### Compliance Enforcement

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- The number of alleged violations in the region will remain fairly constant in 2010.
- Have one (1) large or two (2) small-to-medium contested enforcement cases.
- Conduct 2 Compliance Violation Investigations.
- Conduct 20 detailed analyses of incidents, system disturbances, and events.
- Analyze and investigate 10 Complaints.
- Develop and implement the Texas RE compliance management data management system.
- Continue to work with NERC and other regional entities to improve consistency in processing violations and applying penalties for Registered Entities with operations in multiple regions.

### 2010 Goals and Key Deliverables

#### Organization Registration and Certification

1. Maintain an accurate registration list of all owners, operators, and users of the BPS by establishing a schedule to verify entity registration and contact information.
2. Provide updated registered entity information to NERC and appropriate government authorities.
3. Participate in development of registration criteria, procedures, policies and databases with NERC and FERC, and implement and communicate changes as necessary.
4. Provide support for all registration appeals.
5. Implement organization certification in accordance with NERC processes, some of which are ~~still~~ under development —or revision, and conduct required certification audits, if necessary.
6. Maintain processes and procedures for registration and certification activities that are required by the certification standards.
7. Review and improve procedures to improve communications with registered entities
8. Achieve significant improvement in responsiveness and add more focus on regional consistency.
9. Respond to requests and special reports from NERC/FERC and the board.
10. Continue to improve the Portal to facilitate automated communications with registered entities.
11. ~~Maintain the~~ Help implement and maintain an electronic document management system to more efficiently preserve work papers and evidence.

#### Compliance Enforcement

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1. Review and process or dismiss all alleged violations in a more timely fashion.
2. Manage all settlements and contested cases to completion, as efficiently as possible.
3. Coordinate with and provide assistance to the Legal Department on settlements, appeals and contested cases.
4. Conduct required Compliance Violation Investigations.
5. Conduct compliance analysis of all significant events and other system disturbances.
6. Analyze and investigate all Complaints.
7. Achieve reasonable timelines in performing each of the compliance monitoring and enforcement processes.
8. Achieve reasonable timelines in processing violations, penalties and settlement agreements (less than 100 days).

### Audits

1. Conduct approximately 52 audits, 18 at the entity's site and the remaining 34 at ~~TRE's~~Texas RE's offices, per the 2010 schedule, Texas RE procedures and the provisions of the NERC CMEP.
2. Perform Spot Checks, including a sample of entities for spot checks of the CIP standards.
3. Continue to work with other Regional Entities to improve auditing consistency and reduce the cost of audits for Registered Entities with operations in multiple regions.
4. Complete a review of policies and procedures with the goal of improving the clarity of communications with Registered Entities, to determine how to mitigate the cost of compliance without impacting reliability, and meeting compliance with NERC ROP modifications and NERC guidance.
5. Prepare an overall CMEP implementation plan for the 2011 program by November 1, 2010, including recommendations from the FERC and upcoming NERC audit of Texas RE.

### Funding Requirements — Explanation of Increase (Decrease) ~~Over 2010 Approved~~ Budget

The ~~Compliance~~ funding ~~requirements~~requirement reflects an increase of ~~\$3,439K~~year-1,679K over ~~year due to 2009 being lower the Original Texas RE's 2010 Approved Budget~~ because ~~Texas RE used unspent prior year funds to reduce the 2009 assessment; of Texas RE's required start up costs and in 2010, increased administrative operational expenses. These increased indirect program expenses are fully were allocated to the direct program areas. Additionally, there are personnel increases (including those associated with supporting TFE evaluations) proposed for 2010 as detailed below.~~

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Compliance will have increased personnel expenses as a result of adding 6.0 staff (5.55 FTEs Statutory, .45 FTEs Non-statutory) and additional management, legal, IT, and other personnel work programs on compliance activities.

### Organization Registration and Certification

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

### Compliance Enforcement

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

### Audits

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

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

## Technical Feasibility Exceptions

### **TFE Program Scope and Description**

The CIP standards allow for registered entities to request TFEs to certain of the standard requirements on the grounds of technical feasibility or technical limitations. NERC issued initial procedures for the processing ~~theof~~ TFEs, but there is still great uncertainty regarding the

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workload requirements and longevity of the TFE review and evaluation process. To date, 48 ERCOT Region registered entities have declared critical cyber assets, and each of these registered entities must be audited against the CIP standards requirements. Using the information available, including the NERC guidance, Texas RE has used its best efforts to estimate the workload requirements for its review and evaluation of TFEs in the ERCOT region, including coordination with NERC and the other Regional Entities, in accordance with its below-listed assumptions. Texas RE estimates that each of the registered entities with critical cyber assets will submit an average of five (5) TFEs (totaling 240 TFEs), and that these 240 TFEs will be screened and verified over the next two years (2010-2011), or 120 TFEs per year.

Texas RE estimates that screening of each of these TFEs will require 16 hours of staff labor and the verification will require 34 hours of staff labor. Additionally, there will be approximately 6 hours of staff support required for development and maintenance of online forms, data management, and to monitor periodic reporting of TFE status. Therefore the total estimated impact is 56 hours per TFE. The total effort given these assumptions is 6,720 hours in 2010 (6,000 hours for engineering/information technology/legal labor (3.6 FTEs) and 720 hours of support labor (0.4 FTEs), or a total of 4 FTEs). This FTE increase would equate to approximately \$651K in additional expense plus cash reserves of approximately \$133K. Texas RE acknowledges, however, that the estimated workload for the TFE evaluation is based upon many assumptions that cannot yet be verified. For this reason, Texas RE seeks to add only \$400K, for 3 FTEs for TFE evaluation activities at this time.

Texas RE will monitor the workload actually required to process the TFEs as they are submitted. If the total number of TFEs or the actual workload required for processing the TFEs significantly exceeds the \$400K budget estimate, Texas RE would initially use its cash reserves and will seek a 2010 budget supplement. If the total number of TFEs is significantly less than the above estimate or if the workload for completing TFEs is significantly less than the amount budgeted, any savings will be applied to a future budget year.

The estimates above do not include staff enforcement time required if violations are assessed during the TFE evaluation. Should a large number of violations be assessed as a result of TFE evaluations, this would have a significant impact on enforcement staff and additional resources will be required.

### TFE Program Key Assumptions

- Texas RE will perform TFE evaluations for registered entities in the ERCOT Region and will coordinate with the other Regions to ensure consistent treatment of similar requested TFEs.
- TFE processing will require a preliminary screening of the TFE for completeness and reasonableness for acceptance on an interim basis. Screening is assumed to be completed within 60 days of receipt by the Regional Entity-regional entity.

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- Texas RE will conduct a thorough review of the TFE and proposed mitigating measures, and will prepare its justification for approval or denial of the TFE within 360 days of the initial submittal of the TFE, unless otherwise extended by the ~~Regional Entity~~regional entity with the concurrence of NERC, based on criteria provided by NERC.
- The initial screening and thorough review of each TFE will be conducted off-site (not at the office of the Registered Entity and normally at the Texas RE offices) and Registered Entities will electronically submit all documentation required to review TFEs, including Critical Energy Infrastructure Information (CEII) associated with TFEs, to Texas RE. Registered entities will submit the information through either (1) encrypted email or (2) encrypted or password protected CDs, DVDs, or other mobile storage devices. Texas RE will ensure that confidential data and information received, including Critical Energy Infrastructure Information (CEII), are secured, in accordance with Section 1500 of NERC Rules of Procedure. Unless and until Texas RE can confirm that its servers are appropriately secure, Texas RE will maintain all CEII on password protected or encrypted mobile storage devices which are maintained in locked fire-proof filing cabinets, in accordance with its Handling Guidelines for CEII Corporate Procedure, and Texas RE will only view registered entity CEII on designated secured (password protected) computers that are not network-connected to either the Internet or the Texas RE corporate local area network.
- If a TFE is found to be deficient in the initial screening or during the thorough review, the registered entity will be provided 30 days to remedy the deficiency. If the registered entity fails to comply with the mitigation measures in its own TFE, the entity may be referred to Texas RE enforcement for processing of a possible violation. Registered entities will have a 'safe harbor' from enforcement while a TFE is pending acceptance by Texas RE and while the entity is performing in accordance with the TFE mitigation plan.
- TFEs are associated with and permitted for only CIP-005 requirements 2.4, 2.6, 3.1, and 3.2; ~~CIP-006 requirement 1.1;~~ and CIP-007 requirements 2.3, 4, 5.3, 5.3.1, 5.3.2, 4, 4.1, 5.3.3, 6, and 6.3.
- If a registrant refuses to submit materials or documents due to CEII concerns and requests that Texas RE only review materials on-site, Texas RE will not approve the request, unless the registered entity is prohibited by law from disclosing information designated as Confidential Information, Classified National Security Information, NRC Safeguards Information and/or Protected FOIA Information to any person who is not an Eligible Reviewer (such as, for example, the restriction on access to Classified National Security Information specified in Section 4.1 of Executive Order No. 12958, as amended). In such an instance, the TFE Request shall identify the Confidential Information, Classified National Security Information, NRC Safeguards Information and/or Protected FOIA Information that is subject to such restrictions on disclosure and shall identify the criteria which a person must meet in order to be an Eligible Reviewer of the Confidential Information, Classified National Security Information, NRC Safeguards Information and/or Protected FOIA Information. The registered entity must submit all information that is not so designated.
- Registered entities will be required to provide quarterly updates on the status of TFEs compared to mitigation plan milestones. Texas RE will be expected to review the completion of a TFE in a manner similar to a spot check.

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- TFEs will be grouped by common equipment/device types. Therefore, if there is one vulnerability that affects several types of devices, of which an entity has hundreds of such devices, Texas RE assumes that an entity will submit a single TFE- for such vulnerability.
- NERC will provide review, input, and visibility (such as through a shared national database for use by the Regions) for consistency of the TFEs and will also develop common TFEs to provide better consistency and efficiency across Regions.

**Staffing Summary to Support TFE Processing**

The TFE processing and evaluation will require ~~four additional~~three (3.0) Compliance FTEs, as follows:

- ~~Add two~~Two (2.0) FTEs ~~to the Compliance Staff~~ for TFE screening and verification, and mitigation plan review and follow-up.
- ~~Add one~~One (1.0) FTE ~~to the Compliance Staff~~ for TFE data base administration and tracking.

At the end of the two-year period (after 2011), Texas RE will better understand the scope of the CIP compliance activity (including overflow work associated with balance of nuclear plant audits) and will evaluate staffing needs going forward. Texas RE believes the three (3.0) new TFE-related staff will transition into assuming responsibility for additional work associated with CIP audits, spot checks, investigations and enforcement activities, as well as follow-up on questions and concerns from registered entities.

**~~2010 Overview of TFE Cost Impacts~~**

~~Based on current assumptions that cannot yet be verified, Texas RE's initial analysis has indicated that \$784K will be needed for TFE processing in 2010. However, because of the many uncertainties associated with TFE processing, Texas RE seeks to add only \$400K for TFE processing in 2010 at this time.~~

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**Compliance Enforcement and Organization Registration and Certification Program**

Funding sources and related expenses for the compliance enforcement and organization registration and certification section of the 2010 business plan are shown in the table below.

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<b>Statement of Activities</b>					
<b>2009 Budget &amp; Projection, and 2010 Budget</b>					
<b>Compliance and Organization Registration and Certification</b>					
	2009	2009	Variance	2010	Variance
	Budget	Projection	2009 Projection	Budget	2010 Budget
			v 2009 Budget		v 2009 Budget
			Over(Under)		Over(Under)
<b>Funding</b>					
<b>ERO Funding</b>					
ERO Assessments	\$ 1,628,935	\$ 1,628,935	\$ -	\$ 5,067,667	\$ 3,438,733
Penalty Sanctions	-	-	-	-	-
<b>Total ERO Funding</b>	<b>\$ 1,628,935</b>	<b>\$ 1,628,935</b>	<b>\$ -</b>	<b>\$ 5,067,667</b>	<b>\$ 3,438,733</b>
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
<b>Total Funding</b>	<b>\$ 1,628,935</b>	<b>\$ 1,628,935</b>	<b>\$ -</b>	<b>\$ 5,067,667</b>	<b>\$ 3,438,733</b>
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	\$ 1,164,106	\$ 1,221,917	\$ 57,811	\$ 2,037,418	\$ 873,312
Payroll Taxes	93,128	97,661	4,532	161,372	68,244
Benefits	134,510	100,088	(34,422)	221,580	87,070
Retirement Costs	163,258	161,664	(1,594)	289,434	126,175
<b>Total Personnel Expenses</b>	<b>\$ 1,555,003</b>	<b>\$ 1,581,331</b>	<b>\$ 26,327</b>	<b>\$ 2,709,803</b>	<b>\$ 1,154,800</b>
<b>Meeting Expenses</b>					
Meetings	\$ -	\$ 634	\$ 634	\$ 4,000	\$ 4,000
Travel	73,199	85,850	12,651	154,664	81,465
Conference Calls	-	-	-	-	-
<b>Total Meeting Expenses</b>	<b>\$ 73,199</b>	<b>\$ 86,484</b>	<b>\$ 13,285</b>	<b>\$ 158,664</b>	<b>\$ 85,465</b>
<b>Operating Expenses</b>					
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-	-	-	-	-
Office Costs	600	2,630	2,030	12,062	11,462
Professional Services	-	22,108	22,108	428,660	428,660
Miscellaneous	-	171	171	15,561	15,561
Depreciation	-	-	-	141,107	141,107
<b>Total Operating Expenses</b>	<b>\$ 600</b>	<b>\$ 24,909</b>	<b>\$ 24,309</b>	<b>\$ 597,389</b>	<b>\$ 596,789</b>
<b>Total Direct Expenses</b>	<b>\$ 1,628,802</b>	<b>\$ 1,692,723</b>	<b>\$ 63,921</b>	<b>\$ 3,465,857</b>	<b>\$ 1,837,055</b>
<b>Indirect Expenses</b>	<b>\$ 2,404,881</b>	<b>\$ 1,722,893</b>	<b>\$ (681,988)</b>	<b>\$ 1,438,898</b>	<b>\$ (965,983)</b>
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total Expenses</b>	<b>\$ 4,033,683</b>	<b>\$ 3,415,617</b>	<b>\$ (618,067)</b>	<b>\$ 4,904,755</b>	<b>\$ 871,072</b>
<b>Change in Assets</b>	<b>\$ (2,404,749)</b>	<b>\$ (1,786,682)</b>	<b>\$ 618,067</b>	<b>\$ 162,912</b>	<b>\$ 2,567,661</b>
<b>Fixed Assets</b>					
Depreciation	\$ -	\$ -	\$ -	\$ (141,107)	\$ (141,107)
Computer & Software CapEx	-	-	-	274,237	274,237
Furniture & Fixtures CapEx	-	-	-	15,215	15,215
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
<b>(Incr)Dec in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (148,345)</b>	<b>\$ (148,345)</b>
Allocation of Fixed Assets	\$ (173,365)	\$ (173,365)	\$ -	\$ (14,568)	\$ 158,797
<b>Change in Fixed Assets</b>	<b>\$ (173,365)</b>	<b>\$ (173,365)</b>	<b>\$ -</b>	<b>\$ (162,912)</b>	<b>\$ 10,452</b>
<b>TOTAL CHANGE IN ASSETS</b>	<b>\$ (2,578,113)</b>	<b>\$ (1,960,047)</b>	<b>\$ 618,067</b>	<b>\$ -</b>	<b>\$ 2,578,113</b>

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<b>Statement of Activities</b>			
<b>2010 Approved Budget &amp; 2010 Amended Budget</b>			
<b>Compliance and Organization Registration and Certification</b>			
	2010	2010	2010
	Approved	Adjustment	Amended
	Budget	to the Approved	Budget
	Budget	Budget	Budget
<b>Funding</b>			
<b>ERO Funding</b>			
ERO Assessments	\$ 5,067,667	\$ 1,678,562	\$ 6,746,229
Penalty/Sanctions	-	-	-
<b>Total ERO Funding</b>	<b>\$ 5,067,667</b>	<b>\$ 1,678,562</b>	<b>\$ 6,746,229</b>
Membership Dues	-	-	-
Testing Fees	-	-	-
Services & Software	-	-	-
Workshops	-	-	-
Interest	-	-	-
Miscellaneous	-	-	-
<b>Total Funding</b>	<b>\$ 5,067,667</b>	<b>\$ 1,678,562</b>	<b>\$ 6,746,229</b>
<b>Expenses</b>			
<b>Personnel Expenses</b>			
Salaries	\$ 2,037,418	-	\$ 2,037,418
Payroll Taxes	161,372	-	161,372
Benefits	221,580	-	221,580
Retirement Costs	289,434	-	289,434
<b>Total Personnel Expenses</b>	<b>\$ 2,709,803</b>	<b>\$ -</b>	<b>\$ 2,709,803</b>
<b>Meeting Expenses</b>			
Meetings	\$ 4,000	-	\$ 4,000
Travel	154,664	-	154,664
Conference Calls	-	-	-
<b>Total Meeting Expenses</b>	<b>\$ 158,664</b>	<b>\$ -</b>	<b>\$ 158,664</b>
<b>Operating Expenses</b>			
Consultants & Contracts	\$ -	-	\$ -
Office Rent	-	-	-
Office Costs	12,062	-	12,062
Professional Services	428,660	-	428,660
Miscellaneous	15,561	-	15,561
Depreciation	141,107	-	141,107
<b>Total Operating Expenses</b>	<b>\$ 597,389</b>	<b>\$ -</b>	<b>\$ 597,389</b>
<b>Total Direct Expenses</b>	<b>\$ 3,465,857</b>	<b>\$ -</b>	<b>\$ 3,465,857</b>
<b>Indirect Expenses</b>	<b>\$ 1,438,898</b>	<b>\$ 970,754</b>	<b>\$ 2,409,652</b>
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total Expenses</b>	<b>\$ 4,904,755</b>	<b>\$ 970,754</b>	<b>\$ 5,875,509</b>
<b>Change in Assets</b>	<b>\$ 162,912</b>	<b>\$ 707,808</b>	<b>\$ 870,720</b>
<b>Fixed Assets</b>			
Depreciation	\$ (141,107)	\$ -	\$ (141,107)
Computer & Software CapEx	274,237	100,000	374,237
Furniture & Fixtures CapEx	15,215	-	15,215
Equipment CapEx	-	-	-
Leasehold Improvements	-	-	-
<b>(Incr)Dec in Fixed Assets</b>	<b>\$ (148,345)</b>	<b>\$ (100,000)</b>	<b>\$ (248,345)</b>
Allocation of Fixed Assets	\$ (14,568)	\$ (607,808)	\$ (622,375)
<b>Change in Fixed Assets</b>	<b>\$ (162,912)</b>	<b>\$ (707,808)</b>	<b>\$ (870,720)</b>
<b>TOTAL CHANGE IN ASSETS</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

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## Explanations of Variances – Amended 2010 Budget versus 2009 Approved 2010 Budget

### Funding Sources

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

### Personnel Expenses

- ~~Personnel costs are increasing \$1,155K for 2010 due to increasing staff by 6.00 (5.55 FTEs Statutory, .45 FTEs Non-statutory) in this area to enhance functional performance (improved response times and increased effectiveness); as well as providing the resources required by the TFE evaluation process. Also, there are additional management, legal and project personnel costs that are associated with these functions that are also reflected in the total FTEs (as reported on table 2 of Section B) for these programs.~~

- N/A

### Meeting Expenses

- ~~Meeting expenses are increasing year-over-year primarily related to travel expenses. The length of audits has been extended resulting in a 16% increase in travel \$15K. Additionally, there are a significant number of NERC working group meetings that are planned based on the 2009 meeting schedule, expected increase \$59K. The additional working group meetings are expected to result in a more consistent compliance implementation across the regions. TFE staff travel is included in the budget to support training; meetings and any required travel for the TFE process \$8K. N/A~~

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### Operating Expenses

- ~~Professional services expenses are increasing in 2010 due to the direct-costing of external legal (for enforcement hearings and registration appeals—\$257K) and other professional service expenses directly attributed to hosting Texas RE's portal \$160K for the benefit of the program. To support the TFE process, there is \$12K for recruiting, and \$3K for office costs.~~
- ~~Additionally, there is approximately \$138K in depreciation expense attributed to the Texas RE Portal for 2010, as well as an additional \$3K for TFE cubicle depreciation. Please see Fixed Asset Additions for more detail.~~

- N/A

### Indirect Expenses

- ~~Indirect expenses are decreasing \$966K year-increasing by \$971K over-year, through the identification of direct expenses that were previously budgeted in Original Texas RE's 2010 Approved Budget, due to the start-up costs and the increased administrative services expenses of Texas RE. These increased indirect expenses were allocated to the direct statutory programs on the basis of proportional numbers of FTE employees in each statutory program. The result is a total of \$2,410K for indirect expenses for 2010.~~

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Section B — 2010 Regional Entity Budget

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**Other Non-Operating Expenses**

- N/A

**Fixed Asset Additions**

- ~~The majority of this capital expense is attributed to Texas RE Portal projects and enhancements in 2010, \$274K. The projects such as, Portal Project – System Management User Interfaces: Forms, Security, Notifications/Emails, Portal Switch Lookup, Master Account Summary Report (TRE Registration), CIP Forms 2010 (CIP annual update), Portal Communications GUI (allows non-developers to administer portal home page announcements), and an Audit Tracking Module (TRE Compliance Audits) will enhance Texas RE's ability to perform its delegated responsibilities by utilizing technology to enhance performance.~~
- ~~Texas RE will also need to expend approximately \$15K for cubicles and associated furniture for the additional FTEs related to TFE processing.~~
- -Fixed asset additions are increasing due to the allocation of the increased administrative services' fixed asset additions which are required for the start-up of Texas RE, in the amount of approximately \$608K. Also, there is a need to establish a Texas RE Compliance Monitoring and Enforcement Data Management System tool at a cost of \$100K. The result of these additions brings the total of fixed asset additions to \$871K (net of depreciation) for 2010.

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Section B — 2010 Regional Entity Budget

Training, Education, and Operator Certification Program

Training, Education, and Operator Certification Program Resources			
(in whole dollars)			
Increase(Decrease)	<del>2009</del> 2010 <u>Approved</u> Budget	2010 <u>Amended</u> Budget	
Total FTEs	0. <del>60</del> <u>97</u>	0.97	0. <del>37</del> <u>00</u>
Total Direct Expenses	<del>\$176,415</del> <u>\$328,735</u>	\$328,735	<del>\$152,320</del> <u>0</u>
Total Indirect Expenses	<del>\$99,243</del> <u>\$64,442</u>	<del>\$64,442</del> <u>\$107,918</u>	<del>(\$34,801)</del> <u>\$43,476</u>
Total Expenses	<del>\$275,658</del> <u>\$393,177</u>	<del>\$393,177</del> <u>\$436,653</u>	<del>\$417,518</del> <u>43,476</u>

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The Texas RE Training, Education, and Operator Certification program provides the education and training necessary to understand and operate the BPS, in accordance with NERC ROP Section 900. In 2010, the Texas RE Training program will develop materials for and plan to hold at least:

- Two (2) full-day Standards and Compliance workshops;
- One (1) additional workshop focusing on standards;
- Two (2) additional workshops focusing on CIP compliance.

In addition to the above workshops, Texas RE also intends to ~~continue to~~ coordinate and facilitate six (6) regular sessions of the ERCOT Operations Training Seminar in 2010. The purpose of this seminar is to refresh the understanding of operational fundamentals; introduce changes occurring to operational interfaces, equipment, systems, and processes; address the impact of market processes to system performance and operation; and address emerging issues in performance and system reliability. Texas RE will also ~~facilitates~~facilitate the ERCOT Operator Certification Program, including maintaining and updating the ERCOT Fundamentals Training Manual and administering the System Operator testing process.

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

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

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

~~2010 Key Assumptions:~~

2010 Key Assumptions:

- Texas RE will develop and deliver two (2) Standards and Compliance workshops, two (2) CIP Compliance workshops and six sessions of the Operations Training seminar in 2010.
- Texas RE will develop and deliver one (1) Reliability Standards workshop in 2010.
- The Training, Education, and Operator Certification program will remain a Statutory function with the Operations Training Seminar revenues ~~partially~~ offsetting the majority of the seminar's expenses.

**2010 Goals and Key Deliverables:**

1. Develop two (2) full-day high quality 2010 Standards and Compliance workshops (approximately 125 stakeholders each)
2. Develop and deliver one (1) full-day Reliability Standards workshop
3. Develop and deliver two (2) full-day quality CIP workshops
4. Coordinate and host six (6) sessions of the four-day ERCOT region Operator Training seminar
5. Maintain a database for tracking seminar and workshop participants and feedback and use this feedback to continue to improve on future seminars and workshops

**Funding Requirements — Explanation of Increase (Decrease) over 2010 Approved Budget**

~~The Training, Education and Operator Certification funding requirements ~~reflects~~reflect an increase of \$~~247K~~ year ~~71K~~ over ~~year~~ the Original Texas RE's 2010 Approved Budget because Texas RE used unspent prior year funds to reduce the 2009 assessment; and in 2010, of the required start-up costs and increased administrative costs of Texas RE. These increased indirect program expenses are fullywere allocated to the direct program areas. Additionally, expenses associated with the Operations Training Seminar are increasing due to increases in the cost of the venue for the six (6) week seminar facilitated by Texas RE. The increase in costs from 2009 to 2010 for the OTS is expected to be \$110K year over year. This additional expense is expected to be offset by registration fees collected from OTS attendees. statutory programs on the basis of proportional numbers of FTE employees in each statutory program.~~

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**Section B — 2010 Regional Entity Budget**

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

Funding sources and related expenses for the training, education, and operator certification section of the 2010 business plan are shown in the table below.

Section B — 2010 Regional Entity Budget

<b>Statement of Activities</b>					
<b>2009 Budget &amp; Projection, and 2010 Budget</b>					
<b>Training and Education</b>					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
<b>Funding</b>					
<b>ERO Funding</b>					
ERO Assessments	\$ 106,415	\$ 106,415	\$ -	\$ 213,829	\$ 107,414
Penalty Sanctions	-	-	-	-	-
<b>Total ERO Funding</b>	<b>\$ 106,415</b>	<b>\$ 106,415</b>	<b>\$ -</b>	<b>\$ 213,829</b>	<b>\$ 107,414</b>
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	70,000	174,029	104,029	180,000	110,000
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
<b>Total Funding</b>	<b>\$ 176,415</b>	<b>\$ 280,444</b>	<b>\$ 104,029</b>	<b>\$ 393,829</b>	<b>\$ 217,414</b>
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	\$ 52,608	\$ 76,339	\$ 23,731	\$ 81,122	\$ 28,514
Payroll Taxes	4,209	5,594	1,385	6,425	2,216
Benefits	5,524	7,747	2,222	8,834	3,310
Retirement Costs	7,628	9,673	2,044	11,511	3,883
<b>Total Personnel Expenses</b>	<b>\$ 69,969</b>	<b>\$ 99,352</b>	<b>\$ 29,383</b>	<b>\$ 107,893</b>	<b>\$ 37,924</b>
<b>Meeting Expenses</b>					
Meetings	\$ 105,000	\$ 154,928	\$ 49,928	\$ 220,000	\$ 115,000
Travel	1,446	1,700	254	-	(1,446)
Conference Calls	-	-	-	-	-
<del><b>Total Meeting Expenses</b></del>	<del><b>\$ 106,446</b></del>	<del><b>\$ 156,628</b></del>	<del><b>\$ 50,182</b></del>	<del><b>\$ 220,000</b></del>	<del><b>\$ 113,554</b></del>
<b>Operating Expenses</b>					
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-	-	-	-	-
Office Costs	-	270	270	-	-
Professional Services	-	-	-	-	-
Miscellaneous	-	646	646	842	842
Depreciation	-	-	-	-	-
<b>Total Operating Expenses</b>	<b>\$ -</b>	<b>\$ 916</b>	<b>\$ 916</b>	<b>\$ 842</b>	<b>\$ 842</b>
<b>Total Direct Expenses</b>	<b>\$ 176,415</b>	<b>\$ 256,896</b>	<b>\$ 80,481</b>	<b>\$ 328,735</b>	<b>\$ 152,320</b>
<b>Indirect Expenses</b>	<b>\$ 99,243</b>	<b>\$ 96,418</b>	<b>\$ (2,825)</b>	<b>\$ 64,442</b>	<b>\$ (34,801)</b>
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total Expenses</b>	<b>\$ 275,658</b>	<b>\$ 353,314</b>	<b>\$ 77,656</b>	<b>\$ 393,177</b>	<b>\$ 117,519</b>
<b>Change in Assets</b>	<b>\$ (99,243)</b>	<b>\$ (72,870)</b>	<b>\$ 26,373</b>	<b>\$ 652</b>	<b>\$ 99,895</b>
<b>Fixed Assets</b>					
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
<b>(Incr)Dec in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Allocation of Fixed Assets	\$ (7,154)	\$ (7,154)	\$ -	\$ (652)	\$ 6,502
<b>Change in Fixed Assets</b>	<b>\$ (7,154)</b>	<b>\$ (7,154)</b>	<b>\$ -</b>	<b>\$ (652)</b>	<b>\$ 6,502</b>
<b>TOTAL CHANGE IN ASSETS</b>	<b>\$ (106,397)</b>	<b>\$ (80,024)</b>	<b>\$ 26,373</b>	<b>\$ -</b>	<b>\$ 106,397</b>

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<b>Statement of Activities</b>			
<b>2010 Approved Budget &amp; 2010 Amended Budget</b>			
<b>Training and Education</b>			
	2010 Approved Budget	2010 Adjustment to the Approved Budget	2010 Amended Budget
<b>Funding</b>			
<b>ERO Funding</b>			
ERO Assessments	\$ 213,829	\$ 71,349	\$ 285,179
Penalty Sanctions	-	-	-
<b>Total ERO Funding</b>	<b>\$ 213,829</b>	<b>\$ 71,349</b>	<b>\$ 285,179</b>
Membership Dues	-	-	-
Testing Fees	-	-	-
Services & Software	-	-	-
Workshops	180,000	-	180,000
Interest	-	-	-
Miscellaneous	-	-	-
<b>Total Funding</b>	<b>\$ 393,829</b>	<b>\$ 71,349</b>	<b>\$ 465,179</b>
<b>Expenses</b>			
<b>Personnel Expenses</b>			
Salaries	\$ 81,122	-	\$ 81,122
Payroll Taxes	6,425	-	6,425
Benefits	8,834	-	8,834
Retirement Costs	11,511	-	11,511
<b>Total Personnel Expenses</b>	<b>\$ 107,893</b>	<b>\$ -</b>	<b>\$ 107,893</b>
<b>Meeting Expenses</b>			
Meetings	\$ 220,000	-	\$ 220,000
Travel	-	-	-
Conference Calls	-	-	-
<b>Total Meeting Expenses</b>	<b>\$ 220,000</b>	<b>\$ -</b>	<b>\$ 220,000</b>
<b>Operating Expenses</b>			
Consultants & Contracts	\$ -	-	\$ -
Office Rent	-	-	-
Office Costs	-	-	-
Professional Services	-	-	-
Miscellaneous	842	-	842
Depreciation	-	-	-
<b>Total Operating Expenses</b>	<b>\$ 842</b>	<b>\$ -</b>	<b>\$ 842</b>
<b>Total Direct Expenses</b>	<b>\$ 328,735</b>	<b>\$ -</b>	<b>\$ 328,735</b>
<b>Indirect Expenses</b>	<b>\$ 64,442</b>	<b>\$ 43,476</b>	<b>\$ 107,918</b>
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total Expenses</b>	<b>\$ 393,177</b>	<b>\$ 43,476</b>	<b>\$ 436,653</b>
<b>Change in Assets</b>	<b>\$ 652</b>	<b>\$ 27,874</b>	<b>\$ 28,526</b>
<b>Fixed Assets</b>			
Depreciation	\$ -	\$ -	\$ -
Computer & Software CapEx	-	-	-
Furniture & Fixtures CapEx	-	-	-
Equipment CapEx	-	-	-
Leasehold Improvements	-	-	-
<b>(Incr)Dec in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Allocation of Fixed Assets	\$ (652)	\$ (27,874)	\$ (28,526)
<b>Change in Fixed Assets</b>	<b>\$ (652)</b>	<b>\$ (27,874)</b>	<b>\$ (28,526)</b>
<b>TOTAL CHANGE IN ASSETS</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

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Explanations of Variances – 2010 Amended Budget versus ~~2009~~Approved 2010 Budget

**Funding Sources**

- Training, Education and Operator Certification is planned to be nearly 4639% self-funded in 2010 through registration fees from attendees of the OTS. The remaining 5461% of this program is funded through ERO assessments.

**Personnel Expenses**

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

**Meeting Expenses**

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

**Operating Expenses**

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

**Indirect Expenses**

- Indirect expenses are ~~reflecting a decline of \$35K year-over-year increasing by \$43K due to reductions in the the start-up costs and the increased administrative costs-expenses of Texas RE. The result is a total of \$108K for indirect expenses for 2010.~~

**Other Non-Operating Expenses**

- N/A

**Fixed Asset Additions**

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- There are no new direct fixedFixed asset additions for this program; however, there is a slightare increasing due to the allocation of the administrative services' fixed ~~assets~~asset expenditures which are required for the start-up of Texas RE, in the amount of approximately \$28K, bringing the total of fixed asset additions to \$29K for 2010.

## Reliability Assessment and Performance Analysis Program

Reliability Assessment and Performance Analysis Program Resources			
(in whole dollars)			
2009 <del>2010</del> Approved Budget		2010 Amended Budget	
Increase(Decrease)			
Total FTEs	2.20 <del>44</del>	2.44	0.24 <del>00</del>
Total Direct Expenses	\$365,180 <del>290,095</del>	\$290,095	(\$75,085) <del>\$0</del>
Total Indirect Expenses	\$372,419 <del>161,505</del>	\$461,505 <del>270,464</del>	(\$210,914) <del>\$108,959</del>
Total Expenses	\$737,599 <del>451,600</del>	\$451,600 <del>560,559</del>	(\$285,999) <del>\$108,959</del>

### Program Scope and Functional Description:

#### Reliability Assessment Reports

ERCOT ISO has traditionally assembled the data for and prepared all seasonal, annual long-term, and other required planning and reliability assessments for the ERCOT region, using ERCOT ISO planning staff and input from stakeholder technical experts. As the regional entity, Texas RE coordinates with ERCOT ISO regarding the timing of these assessments, and Texas RE reviews the assessments for completeness. Because Texas RE plans to continue to rely upon ERCOT ISO Planning staff for the research and preparation of these assessments, Texas RE's coordination and review of these assessments is a small portion of its 2010 budget.

#### Event Analysis

As Reliability Coordinator, ERCOT ISO monitors the system in real time and reports a variety of incidents and disturbances to Texas RE for its review and compliance analysis. These incidents and disturbances include Department of Energy and NERC reportable events, Emergency Electric Alert (EEA) implementation, special protection system activation, equipment outages and failures, underfrequency and undervoltage relay operation, and any failure to meet NERC requirements related to frequency control or transmission security.

Texas RE reviews all reported incidents and disturbances to determine if a compliance analysis is needed. If the initial review indicates that a standard might potentially have been violated, Texas RE performs a compliance analysis and obtains more information from the registered

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entity, as needed. If the compliance analysis indicates that further review, such as a CIQ, Spot Check, or CVI is justified, further analysis is performed as described under the CMEP description. If the initial review indicates that any Protocol might have been violated, Texas RE performs a Non-statutory compliance analysis as part of its Non-statutory activities.

Texas RE staff also attend ERCOT ISO reliability-based stakeholder committees, such as the Reliability & Operating Subcommittee (ROS), Performance Disturbance Compliance Working Group (PDCWG), Operations Working Group (OWG) and the Wind Operations Task Force (WOTF) to better understand the reliability issues and challenges for the ERCOT region and to provide comments from the Texas RE perspective when needed. Texas RE also regularly communicates with NERC staff regarding any reliability challenges of special interest in the ERCOT region (e.g. wind generation) to keep NERC apprised of risks, improvements, and on-going strategy.

On a monthly basis, Texas RE also calculates and reports on a variety of reliability performance metrics (e.g. Regional (ERCOT Protocol) measures and NERC Reliability Standards measures) to its Board of Directors. Texas RE also uses this information, when appropriate, to identify potential standards violations or declining reliability trends that need to be investigated.

### 2010 Key Assumptions:

### 2010 Key Assumptions:

- ERCOT ISO will continue to research, assemble data for, and prepare the seasonal, long-term, and other requested assessments, and Texas RE will coordinate the timing of and review such assessments (and make comments, if required) before submitting the assessments to NERC
- Review Texas RE will review approximately 80 reports of incidents, complaints, and disturbances

### 2010 Goals and Key Deliverables:

1. Increase Texas RE ~~will increase its~~ participation in the Regional Planning Group activities
2. Coordinate the communication of all reliability assessment-related information as requested by NERC (this is an additional goal not stated in the 2010 Approved Business Plan and Budget).
- 2-3. Timely review and submit all required assessments to NERC (or ensure required assessments are submitted to NERC on schedule), providing comments to the

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assessments, as needed. (This goal has been restated from the 2010 Approved Business Plan and Budget.)

- 3.4. \_\_\_\_\_ Timely review all required incidents, complaints and disturbances
- 4.5. \_\_\_\_\_ Communicate and coordinate issues of reliability concern with NERC

**Funding Requirements — Explanation of Increase (Decrease) over 2010 Approved Budget**

The ~~Reliability Assessment and Performance Analysis program~~ funding requirements ~~reflects~~reflect an increase of \$88K ~~year-over-year for two (2) reasons:~~

- 1. ~~2009 was lowered 177K over the Original Texas RE's 2010 Approved Budget because Texas RE used unspent prior year funds to reduce the 2009 assessment; of Texas RE's start-up costs and increased administrative expenses and~~
- 2. ~~In 2010, fixed asset additions. These increased indirect program expenses are fully~~were allocated to the direct ~~program areas statutory programs on the basis of proportional numbers of FTE employees in each statutory program.~~

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**Section B — 2010 Regional Entity Budget**

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**Reliability Assessment and Performance Analysis Program**

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

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<b>Statement of Activities</b>					
<b>2009 Budget &amp; Projection, and 2010 Budget</b>					
<b>Reliability Assessment and Performance Analysis</b>					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
<b>Funding</b>					
<b>ERO Funding</b>					
ERO Assessments	\$ 365,180	\$ 365,180	\$ -	\$ 453,235	\$ 88,055
Penalty Sanctions	-	-	-	-	-
<b>Total ERO Funding</b>	<b>\$ 365,180</b>	<b>\$ 365,180</b>	<b>\$ -</b>	<b>\$ 453,235</b>	<b>\$ 88,055</b>
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
<b>Total Funding</b>	<b>\$ 365,180</b>	<b>\$ 365,180</b>	<b>\$ -</b>	<b>\$ 453,235</b>	<b>\$ 88,055</b>
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	\$ 270,100	\$ 157,007	\$ (113,093)	\$ 217,004	\$ (53,096)
Payroll Taxes	21,608	11,922	(9,686)	17,187	(4,421)
Benefits	31,191	13,181	(18,010)	23,632	(7,559)
Retirement Costs	39,165	21,247	(17,918)	30,793	(8,372)
<b>Total Personnel Expenses</b>	<b>\$ 362,063</b>	<b>\$ 203,356</b>	<b>\$ (158,707)</b>	<b>\$ 288,615</b>	<b>\$ (73,448)</b>
<b>Meeting Expenses</b>					
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	3,117	850	(2,267)	806	(2,311)
Conference Calls	-	-	-	-	-
<b>Total Meeting Expenses</b>	<b>\$ 3,117</b>	<b>\$ 850</b>	<b>\$ (2,267)</b>	<b>\$ 806</b>	<b>\$ (2,311)</b>
<b>Operating Expenses</b>					
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-	-	-	-	-
Office Costs	-	1	1	-	-
Professional Services	-	-	-	-	-
Miscellaneous	-	136	136	673	673
Depreciation	-	-	-	-	-
<b>Total Operating Expenses</b>	<b>\$ -</b>	<b>\$ 137</b>	<b>\$ 137</b>	<b>\$ 673</b>	<b>\$ 673</b>
<b>Total Direct Expenses</b>	<b>\$ 365,180</b>	<b>\$ 204,343</b>	<b>\$ (160,837)</b>	<b>\$ 290,095</b>	<b>\$ (75,085)</b>
<b>Indirect Expenses</b>	<b>\$ 372,419</b>	<b>\$ 246,784</b>	<b>\$ (125,635)</b>	<b>\$ 161,505</b>	<b>\$ (210,914)</b>
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total Expenses</b>	<b>\$ 737,599</b>	<b>\$ 451,127</b>	<b>\$ (286,472)</b>	<b>\$ 451,600</b>	<b>\$ (285,999)</b>
<b>Change in Assets</b>	<b>\$ (372,419)</b>	<b>\$ (85,947)</b>	<b>\$ 286,472</b>	<b>\$ 1,635</b>	<b>\$ 374,054</b>
<b>Fixed Assets</b>					
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
<b>(Incr)Dec in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Allocation of Fixed Assets	\$ (26,847)	\$ (26,847)	\$ -	\$ (1,635)	\$ 25,212
<b>Change in Fixed Assets</b>	<b>\$ (26,847)</b>	<b>\$ (26,847)</b>	<b>\$ -</b>	<b>\$ (1,635)</b>	<b>\$ 25,212</b>
<b>TOTAL CHANGE IN ASSETS</b>	<b>\$ (399,266)</b>	<b>\$ (112,794)</b>	<b>\$ 286,472</b>	<b>\$ (0)</b>	<b>\$ 399,266</b>

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<b>Statement of Activities</b>			
<b>2010 Approved Budget &amp; 2010 Amended Budget</b>			
<b>Reliability Assessment and Performance Analysis</b>			
	2010 Approved Budget	2010 Adjustment to the Approved Budget	2010 Amended Budget
<b>Funding</b>			
<b>ERO Funding</b>			
ERO Assessments	\$ 453,235	\$ 177,181	\$ 630,416
Penalty Sanctions	-	-	-
<b>Total ERO Funding</b>	<b>\$ 453,235</b>	<b>\$ 177,181</b>	<b>\$ 630,416</b>
Membership Dues	-	-	-
Testing Fees	-	-	-
Services & Software	-	-	-
Workshops	-	-	-
Interest	-	-	-
Miscellaneous	-	-	-
<b>Total Funding</b>	<b>\$ 453,235</b>	<b>\$ 177,181</b>	<b>\$ 630,416</b>
<b>Expenses</b>			
<b>Personnel Expenses</b>			
Salaries	\$ 217,004	-	\$ 217,004
Payroll Taxes	17,187	-	17,187
Benefits	23,632	-	23,632
Retirement Costs	30,793	-	30,793
<b>Total Personnel Expenses</b>	<b>\$ 288,615</b>	<b>\$ -</b>	<b>\$ 288,615</b>
<b>Meeting Expenses</b>			
Meetings	-	-	-
Travel	806	-	806
Conference Calls	-	-	-
<b>Total Meeting Expenses</b>	<b>\$ 806</b>	<b>\$ -</b>	<b>\$ 806</b>
<b>Operating Expenses</b>			
Consultants & Contracts	-	-	-
Office Rent	-	-	-
Office Costs	-	-	-
Professional Services	-	-	-
Miscellaneous	673	-	673
Depreciation	-	-	-
<b>Total Operating Expenses</b>	<b>\$ 673</b>	<b>\$ -</b>	<b>\$ 673</b>
<b>Total Direct Expenses</b>	<b>\$ 290,095</b>	<b>\$ -</b>	<b>\$ 290,095</b>
<b>Indirect Expenses</b>	<b>\$ 161,505</b>	<b>\$ 108,959</b>	<b>\$ 270,464</b>
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total Expenses</b>	<b>\$ 451,600</b>	<b>\$ 108,959</b>	<b>\$ 560,559</b>
<b>Change in Assets</b>	<b>\$ 1,635</b>	<b>\$ 68,222</b>	<b>\$ 69,857</b>
<b>Fixed Assets</b>			
Depreciation	-	-	-
Computer & Software CapEx	-	-	-
Furniture & Fixtures CapEx	-	-	-
Equipment CapEx	-	-	-
Leasehold Improvements	-	-	-
<b>(Incr)Dec in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Allocation of Fixed Assets	\$ (1,635)	\$ (68,222)	\$ (69,857)
<b>Change in Fixed Assets</b>	<b>\$ (1,635)</b>	<b>\$ (68,222)</b>	<b>\$ (69,857)</b>
<b>TOTAL CHANGE IN ASSETS</b>	<b>\$ (0)</b>	<b>\$ -</b>	<b>\$ -</b>

**Explanations of Variances – Proposed 2010 Amended Budget versus 2009-Approved 2010 Budget**

**Funding Sources**

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

### Personnel Expenses

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

### Meeting Expenses

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

### Operating Expenses

- ~~Material changes to operating expenses are not planned for 2010.~~
- N/A

### Indirect Expenses

- Indirect expenses are ~~declining \$211K year-over-year, due to a reduction in~~increasing by \$109K due to the start-up costs and the increased administrative services costs expenses of Texas RE. The result is a total of \$270K for indirect expenses through 2010.

### Other Non-Operating Expenses

- N/A

### Fixed Asset Additions

- ~~There are no new direct fixed~~Fixed asset additions for this program; however, there is a slight ~~are increasing due to the~~ allocation of increased administrative services' fixed ~~asset expenditures which are required for the start-up of Texas RE, in the amount of approximately \$68K, bringing the total fixed asset additions to \$70K for 2010.~~

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## Situational Awareness and Infrastructure Security Program

Situational Awareness and Infrastructure Security Program Resources			
(in whole dollars)			
2009 <del>2010</del> Approved Budget		2010 Amended Budget	
Increase(Decrease)			
Total FTEs	<del>4.50</del> 3.03	3.03	<del>4.53</del> 0.00
Total Direct Expenses	<del>\$459,429</del> 391,907	\$391,907	<del>\$232,778</del> 0
Total Indirect Expenses	<del>\$250,393</del> 200,226	<del>\$200,226</del> 335,309	<del>(\$50,166)</del> 135,083
Total Expenses	<del>\$409,522</del> 592,134	<del>\$592,134</del> 727,217	<del>\$482,612</del> 135,083

### Program Scope and Functional Description

This program supports two distinct functions. Situational awareness is focused on near real-time analysis of the BPS for ERCOT ISO. Infrastructure Security focuses on protecting tangible assets from a variety of threats. The majority of activity for this program in 2010 relates to Infrastructure Security, however, some resources are also planned for Situational Awareness.

#### Situational Awareness

Currently, Texas RE relies significantly on the ERCOT ISO to provide details on situational issues. Texas RE Staff have direct access to historical data via the data warehouse. There are two aspects of situational awareness which require Texas RE involvement in 2010:

1. Texas RE will continue to participate in the Situational Awareness for FERC, NERC, and Regional Entities (SAFNR) Project. SAFNR Project goal is to enable 100% of reliability coordinators in the United States to display interconnection system conditions to FERC, NERC, and the respective regional entities. This will be accomplished through internet-based systems that provide visual displays for FERC, NERC, and the Regional Entities (REs) while all the data resides at the reliability coordinators.

The SAFNR Project team is comprised of FERC Office of Electric Reliability staff, NERC Situational Awareness staff, designated RE staff, the Reliability Coordinators (RCs) located in the United States, and the ~~Regional Entity~~ regional entity managers.

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2. Texas RE situational awareness and events analysis staff communicate with NERC, FERC and other regions on observed events, disturbances, or BPS condition. NERC led conference calls are held at a minimum bi-weekly. In the case of more severe events (for example: major blackout or hurricane), daily as needed.

### 2010 Key Assumptions

#### Situational Awareness

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

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### 2010 Goals and Key Deliverables

#### Situational Awareness

SAFNR's ~~subsequent~~ goal is to provide ~~each~~ NERC, FERC and each RE with a common view of the interconnections. In 2010, this includes:

1. Modify existing displays or create new ones to make the visualization more consistent.
2. Assess what aspects are working well, identify areas for improvement and review cost implications.
3. Clarify what is driving the related business case and possibly build in performance metrics from previous phases to help quantify the value.

### **Funding Requirements — Explanation of Increase (Decrease) Over 2010 Approved Budget**

The ~~Situational Awareness and Critical Infrastructure Protection~~ funding requirements ~~reflects~~**reflect** an increase of \$435K ~~year-over-year, in part due to 2009 being lower because~~ **220K from the 2010 Approved Budget for Original** Texas RE ~~used unspent prior-year funds to reduce the 2009 assessment; and in 2010,~~ **to the 2010 Amended Budget because of Texas RE's start-up costs and increased administrative expenses. These increased** indirect

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~~program expenses are fully were allocated to the direct program areas. Additionally, expenses associated with the program are increasing as detailed in the variances section.~~

Situational Awareness

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

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

Critical Infrastructure Protection Resources (Included in Total Situational Awareness and Infrastructure Security) (in whole dollars)			
Increase(Decrease)	<del>2009</del> 2010 Approved Budget	2010 Amended Budget	
Total FTEs	n/a	n/a	n/a
Total Direct Expenses	n/a	n/a	n/a

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Total Indirect Expenses	n/a	n/a	n/a
Total Expenses	n/a	n/a	n/a

*Exhibit not completed due to personnel salary confidentiality.*

**Program Scope and Functional Description**

Responsible entities must become ~~compliant~~ **Compliant** with Critical Infrastructure Protection (CIP) Standards based on the NERC implementation schedules. ERCOT ISO is ~~currently~~ the only ~~designated~~ **registered** Balancing Authority (BA), Transmission Operator (TOP), and Reliability Coordinator (RC) in the ERCOT region and was ~~the only entity~~ required to self-certify compliance to NERC's Urgent Action Cyber Security Standard 1200. As such, ~~only~~ ERCOT ISO must be either ~~auditably compliant~~ **Auditably Compliant** or ~~compliant~~ **Compliant** with all of the CIP Standards requirements by the end of the second quarter 2009; and ~~auditably compliant~~ **Auditably Compliant** with all CIP Standards requirements by the end of the second quarter 2010.

All new registered entities must also become ~~compliant~~ **Compliant** with all CIP standards requirements in accordance with the CIP implementation plan.

Texas RE will continue to play an active role during the implementation of the CIP standards requirements. To provide time for Responsible Entities to examine their policies and procedures, to assemble the necessary documentation, and to meet the requirements of the CIP standards, compliance assessment began in 2007. Status reports are also being requested from Responsible Entities to verify that entities are on schedule and meeting the implementation plan. NERC expects its ~~regional entities~~ **Regional Entities** to provide assistance and education on the CIP standards to ease the transition. Texas RE is budgeting to provide training to registered entities and other stakeholders under the training function budget. Some of the content in this training will be related to cyber-security and will be internally developed.

This program will support activities associated with cyber security, including monitoring and enforcement of compliance with the CIP (CIP-001 thru 009) standards. The intent of the NERC CIP Standards is to ensure that all entities responsible for the reliability of the BPS identify and protect critical cyber assets that control or could impact the reliability of the BPS. The CIP Standards requirements are being communicated to all responsible entities to ensure compliance in accordance with the CIP Implementation Plan. This requires a significant amount of communication with the ERCOT ISO Security Department and entities responsible for complying with the CIP standards. Compliance Audits, self-certifications, and spot checks will be required to verify compliance.

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### 2010 Key Assumptions

- Develop and Implement CIP audit program during 2010.
- Texas RE will only have one major CIP audit in 2010.
- Conduct all CIP Spot Checks at the Texas RE offices (no CIP audit travel will be required in 2010).
- Semi-annual CIP Self-Certifications will be required of registered entities in 2010.
- NERC will ~~conduct~~ be responsible for CIP audits of nuclear facilities, as contemplated by NERC's ~~draft~~ approved Business Plan and Budget. (This assumption has been restated from the 2010 Approved Business Plan and Budget.)
- Six (6) CIP spot checks will be done in 2010.

### 2010 Goals and Key Deliverables

1. Finalize Texas RE CIP audit procedures.
2. Complete the CIP audit of the ERCOT ISO.
3. Complete a minimum of 6 CIP spot checks.
4. Identify CIP Audit Team for 2011.
  - a. Any additional skill sets that may be needed for 2011.
5. Semi-Annual CIP Self-Certifications for 2010.
6. Develop education plan and deliver 2 CIP workshops for registered entities (see Training section)-) before most entities enter Auditably Compliant phase and CIP audits begin. (This goal is slightly revised from the 2010 Approved Business Plan and Budget.)
  - ~~a. Last CIP Workshops before entities enter audibly compliant phase and CIP audits begin.~~
7. Enhance the Texas RE website with CIP information and links.

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

#### Critical Infrastructure Protection

~~The addition of one IT Security subject matter expert (SME) will provide a skill set that Texas RE currently does not possess. Specific knowledge of how to assess the security of EMS and SCADA systems, networks, and electronic security perimeters (ESP) is needed. Incorporating this knowledge into the Texas RE CIP process will be a primary deliverable for the IT Security SME in 2010, as well as participating in the 2010 CIP audit of the ERCOT ISO. The IT Security SME will be participating (and eventually leading) on CIP audits in 2011 and spot checks in~~

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~~2010. In preparation for participating in CIP audits, the IT Security SME will have to attend NERC Auditor Training and NERC CIP Auditor Training. These two training sessions will be the only required travel for this position in 2010. Based on supporting CIP business plan, Texas RE will require 1.0 additional staff position for 2010 (.98 FTEs Statutory and .02 FTEs Non-statutory) starting in the second quarter.~~



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**Situational Awareness and Infrastructure Security Program**

Funding sources and related expenses for the situational awareness and infrastructure security section of the 2010 business plan are shown in the table below.

Section B — 2010 Regional Entity Budget

<b>Statement of Activities</b>					
<b>2009 Budget &amp; Projection, and 2010 Budget</b>					
<b>Situational Awareness and Infrastructure Security</b>					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
<b>Funding</b>					
<b>ERO Funding</b>					
ERO Assessments	\$ 159,129	\$ 159,129	\$ -	\$ 594,161	\$ 435,032
Penalty Sanctions	-	-	-	-	-
<b>Total ERO Funding</b>	<b>\$ 159,129</b>	<b>\$ 159,129</b>	<b>\$ -</b>	<b>\$ 594,161</b>	<b>\$ 435,032</b>
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
<b>Total Funding</b>	<b>\$ 159,129</b>	<b>\$ 159,129</b>	<b>\$ -</b>	<b>\$ 594,161</b>	<b>\$ 435,032</b>
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	\$ 118,842	\$ 127,966	\$ 9,124	\$ 291,164	\$ 172,322
Payroll Taxes	9,507	9,142	(365)	23,060	13,553
Benefits	12,479	5,533	(6,945)	31,708	19,229
Retirement Costs	17,232	16,713	(519)	41,316	24,084
<b>Total Personnel Expenses</b>	<b>\$ 158,060</b>	<b>\$ 159,354</b>	<b>\$ 1,294</b>	<b>\$ 387,247</b>	<b>\$ 229,187</b>
<b>Meeting Expenses</b>					
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	1,069	3,597	2,528	4,260	3,191
Conference Calls	-	-	-	-	-
<b>Total Meeting Expenses</b>	<b>\$ 1,069</b>	<b>\$ 3,597</b>	<b>\$ 2,528</b>	<b>\$ 4,260</b>	<b>\$ 3,191</b>
<b>Operating Expenses</b>					
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-	-	-	-	-
Office Costs	-	397	397	-	-
Professional Services	-	-	-	-	-
Miscellaneous	-	-	-	400	400
Depreciation	-	-	-	-	-
<b>Total Operating Expenses</b>	<b>\$ -</b>	<b>\$ 397</b>	<b>\$ 397</b>	<b>\$ 400</b>	<b>\$ 400</b>
<b>Total Direct Expenses</b>	<b>\$ 159,129</b>	<b>\$ 163,348</b>	<b>\$ 4,219</b>	<b>\$ 391,907</b>	<b>\$ 232,778</b>
<b>Indirect Expenses</b>	<b>\$ 250,393</b>	<b>\$ 164,140</b>	<b>\$ (86,253)</b>	<b>\$ 200,226</b>	<b>\$ (50,166)</b>
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total Expenses</b>	<b>\$ 409,522</b>	<b>\$ 327,488</b>	<b>\$ (82,034)</b>	<b>\$ 592,134</b>	<b>\$ 182,612</b>
<b>Change in Assets</b>	<b>\$ (250,393)</b>	<b>\$ (168,359)</b>	<b>\$ 82,034</b>	<b>\$ 2,027</b>	<b>\$ 252,420</b>
<b>Fixed Assets</b>					
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
<b>(Incr)Dec in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Allocation of Fixed Assets	\$ (18,050)	\$ (18,050)	\$ -	\$ (2,027)	\$ 16,023
<b>Change in Fixed Assets</b>	<b>\$ (18,050)</b>	<b>\$ (18,050)</b>	<b>\$ -</b>	<b>\$ (2,027)</b>	<b>\$ 16,023</b>
<b>TOTAL CHANGE IN ASSETS</b>	<b>\$ (268,443)</b>	<b>\$ (186,409)</b>	<b>\$ 82,034</b>	<b>\$ 0</b>	<b>\$ 268,443</b>

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Section B — 2010 Regional Entity Budget

<b>Statement of Activities</b>			
<b>2010 Approved Budget &amp; 2010 Amended Budget</b>			
<b>Situational Awareness and Infrastructure Security</b>			
	2010 Approved Budget	2010 Adjustment to the Approved Budget	2010 Amended Budget
<b>Funding</b>			
<b>ERO Funding</b>			
ERO Assessments	\$ 594,161	\$ 219,661	\$ 813,822
Penalty Sanctions	-	-	-
<b>Total ERO Funding</b>	<b>\$ 594,161</b>	<b>\$ 219,661</b>	<b>\$ 813,822</b>
Membership Dues	-	-	-
Testing Fees	-	-	-
Services & Software	-	-	-
Workshops	-	-	-
Interest	-	-	-
Miscellaneous	-	-	-
<b>Total Funding</b>	<b>\$ 594,161</b>	<b>\$ 219,661</b>	<b>\$ 813,822</b>
<b>Expenses</b>			
<b>Personnel Expenses</b>			
Salaries	\$ 291,164	-	\$ 291,164
Payroll Taxes	23,060	-	23,060
Benefits	31,708	-	31,708
Retirement Costs	41,316	-	41,316
<b>Total Personnel Expenses</b>	<b>\$ 387,247</b>	<b>\$ -</b>	<b>\$ 387,247</b>
<b>Meeting Expenses</b>			
Meetings	-	-	-
Travel	4,260	-	4,260
Conference Calls	-	-	-
<b>Total Meeting Expenses</b>	<b>\$ 4,260</b>	<b>\$ -</b>	<b>\$ 4,260</b>
<b>Operating Expenses</b>			
Consultants & Contracts	-	-	-
Office Rent	-	-	-
Office Costs	-	-	-
Professional Services	-	-	-
Miscellaneous	400	-	400
Depreciation	-	-	-
<b>Total Operating Expenses</b>	<b>\$ 400</b>	<b>\$ -</b>	<b>\$ 400</b>
<b>Total Direct Expenses</b>	<b>\$ 391,907</b>	<b>\$ -</b>	<b>\$ 391,907</b>
<b>Indirect Expenses</b>	<b>\$ 200,226</b>	<b>\$ 135,083</b>	<b>\$ 335,309</b>
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total Expenses</b>	<b>\$ 592,134</b>	<b>\$ 135,083</b>	<b>\$ 727,217</b>
<b>Change in Assets</b>	<b>\$ 2,027</b>	<b>\$ 84,578</b>	<b>\$ 86,605</b>
<b>Fixed Assets</b>			
Depreciation	-	-	-
Computer & Software CapEx	-	-	-
Furniture & Fixtures CapEx	-	-	-
Equipment CapEx	-	-	-
Leasehold Improvements	-	-	-
<b>(Incr)Dec in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Allocation of Fixed Assets	(2,027)	(84,578)	(86,605)
<b>Change in Fixed Assets</b>	<b>\$ (2,027)</b>	<b>\$ (84,578)</b>	<b>\$ (86,605)</b>
<b>TOTAL CHANGE IN ASSETS</b>	<b>\$ 0</b>	<b>\$ -</b>	<b>\$ -</b>

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**Explanations of Variances – Proposed 2010 Amended Budget versus 2009 Approved 2010 Budget**

2010 Texas Regional Reliability Entity Business Plan and Budget  
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## Section B — 2010 Regional Entity Budget

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### Funding Sources

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

### Personnel Expenses

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

### Meeting Expenses

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

### Operating Expenses

- ~~Operating expenses are flat year over year.~~
- N/A

### Indirect Expenses

- ~~Indirect expenses are declining \$50K year over year, due to a reduction in administrative services costs.~~
- Indirect expenses are increasing by \$135K due to the start-up costs and the increased administrative expenses of Texas RE. The result is a total of \$335K for indirect expenses through 2010. These increased indirect expenses were allocated to the direct statutory programs on the basis of proportional numbers of FTE employees in each statutory program.

### Other Non-Operating Expenses

- N/A

### Fixed Asset Additions

- ~~There are no new direct fixed~~Fixed asset additions for this program; however, there is a ~~slight~~increase increasing due to the allocation of increased administrative services' fixed

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**Section B — 2010 Regional Entity Budget**

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asset expenditures which are required for the start-up of Texas RE, in the amount of approximately \$85K, bringing the total of fixed asset additions to \$87K for 2010.

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**Administrative Services**

<b>Administrative Services</b>			
(in whole dollars)			
<del>2009</del> 2010 <u>Approved</u> Budget		2010 <u>Amended</u> Budget	
Increase(Decrease)			
Total FTEs	<del>6.80</del> 3.76	3.76- <del>9.26</del>	( <del>3.04</del> )5.50
Total Direct Expenses	\$ <del>2,559,847</del> 001,482	\$2,004,482-3,351,783	( <del>558,365</del> )\$1,350,301

**Program Scope and Functional Description**

All administrative activities are considered indirect (including General and Administrative or "G&A", Legal and Regulatory, Information Technology, Human Resources, and Finance) and the salaries of all employees in the administrative areas are reflected in the G&A program, to protect the confidentiality of salaries.

**General and Administrative**

The CEO carries on the general affairs of the Texas RE. The CEO is independent of any registered entity and reports exclusively to the Texas RE Board of Directors. The CEO is responsible for:

- Overseeing and managing the activities of Texas RE.
- Making final decisions with respect to non-contested enforcement related to compliance actions for violations of reliability standards.
- Making employment-related decisions for all employees of Texas RE.
- Making an annual report and periodic reports to Texas RE's Board concerning the activities and expenditures of Texas RE.
- Ensuring that Texas RE files all required reports with NERC.
- Monitoring the expenditures of the monies received by Texas RE to ensure that such are deployed in accordance with the approved Texas RE Budget (in cooperation with the Finance Staff).
- Retaining or terminating outside counsel or other advisors as deemed appropriate.
- Performing such other duties as may be determined from time to time by Texas RE's Board, for the benefit of the Texas RE.

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## Section B — 2010 Regional Entity Budget

An Executive Assistant will be responsible for providing executive-level administrative support to the Texas RE CEO. The Executive Assistant will also perform general office manager activities and provide support to other Texas RE staff as needed.

### 2010 Key Assumptions

- Original Texas RE will perform all Statutory and Non-statutory activities until Implementation.
- Upon Implementation Texas RE will perform all Statutory and Non-statutory activities as the regional entity.
- Texas RE will be a separate corporation that is not associated with nor affiliated with ERCOT ISO and does not receive any administrative services from ERCOT ISO.
- ~~Texas RE total staff will increase to 40-46.00 staff (34.00-39.50 FTEs Statutory, 6.00-50 FTEs Non-statutory).~~
- ~~Texas RE will continue to operate as-), including an independent division increase of ERCOT ISO 6.00 FTE resulting from the formation of Texas RE as a separate entity from ERCOT.~~
- Where possible, all appropriate direct program expenses will be a direct ~~costs~~ costs to ~~their~~ the respective program and function. Only corporate services expenses and personnel will remain in administrative services.
- ~~Texas RE will establish a cash reserve of 75 days cash on hand (totaling \$1,371K, with \$855K on hand from 2009, for a difference of \$516K), or a 20% reserve for contingency planning purposes. This will not result in an increased assessment for 2010. Texas RE projects a balance of \$594K in its regulatory liability (unspent prior year funds) that it will release in 2010. Additionally, Texas RE will reduce assessments by the difference (\$78K).~~
- The costs currently incurred under the MOU are eliminated, and these cost reductions are reflected in column 4 in the "General & Administrative" Statement of Activities table on page 49.

### 2010 Goals and Key Deliverables

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

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Approved by Board of Directors: ~~August 17, 2009~~

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Section B — 2010 Regional Entity Budget

~~2. Ensure that the new corporation is appropriately staffed and managed to maximize stakeholder value as well as to maintain independence.~~

3. Effectively manage the NERC Compliance Monitoring and Enforcement Program.

4. Manage Texas RE's Standards Development Process.

~~5. Establish Key Performance Indicators~~ key performance indicators and ~~Benchmarks~~ benchmarks for Texas RE operations.

~~5.~~

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

~~In the Over 2010 budget, the funding requirement is decreasing \$336K. Indirect programs allocate their~~ **Approved Budget**

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- ~~The funding requirements for this program reflect an increase of \$215K over Original Texas RE's 2010 Approved Budget, because of Texas RE's required start-up costs and increased administrative operational expenses. These increased indirect expenses were allocated to the direct programs~~ statutory programs on the basis of proportional numbers of FTE employees in each statutory program.

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**Section B — 2010 Regional Entity Budget**

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**General and Administrative**

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

Section B — 2010 Regional Entity Budget

<b>Statement of Activities</b>					
<b>2009 Budget &amp; Projection, and 2010 Budget</b>					
<b>General and Administrative</b>					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
<b>Funding</b>					
<b>ERO Funding</b>					
ERO Assessments	\$ 257,531	\$ 257,531	\$ -	\$ (80,265)	\$ (337,796)
Penalty Sanctions	-	-	-	-	-
<b>Total ERO Funding</b>	<b>\$ 257,531</b>	<b>\$ 257,531</b>	<b>\$ -</b>	<b>\$ (80,265)</b>	<b>\$ (337,796)</b>
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	4,125	4,125	2,000	2,000
Miscellaneous	-	-	-	-	-
<b>Total Funding</b>	<b>\$ 257,531</b>	<b>\$ 261,656</b>	<b>\$ 4,125</b>	<b>\$ (78,265)</b>	<b>\$ (335,796)</b>
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	\$ 764,074	\$ 737,553	\$ (26,522)	\$ 539,855	\$ (224,219)
Payroll Taxes	61,126	55,400	(5,726)	42,598	(18,528)
Benefits	61,605	57,729	(3,876)	54,570	(7,034)
Retirement Costs	110,791	96,644	(12,147)	80,324	(30,467)
<b>Total Personnel Expenses</b>	<b>\$ 997,596</b>	<b>\$ 949,325</b>	<b>\$ (48,271)</b>	<b>\$ 717,347</b>	<b>\$ (280,249)</b>
<b>Meeting Expenses</b>					
Meetings	-	870	870	3,600	3,600
Travel	12,820	13,404	584	17,158	4,338
Conference Calls	-	-	-	-	-
<b>Total Meeting Expenses</b>	<b>\$ 12,820</b>	<b>\$ 14,274</b>	<b>\$ 1,454</b>	<b>\$ 20,758</b>	<b>\$ 7,938</b>
<b>Operating Expenses</b>					
Consultants & Contracts	\$ 487,054	\$ 539,074	\$ 52,020	\$ 676,331	\$ 189,277
Office Rent	517,550	287,392	(230,158)	327,600	(189,950)
Office Costs	13,320	15,506	2,186	24,240	10,920
Professional Services	30,000	82,462	52,462	60,000	30,000
Miscellaneous	10,515	8,410	(2,105)	1,350	(9,165)
Depreciation	-	-	-	-	-
<b>Total Operating Expenses</b>	<b>\$ 1,058,439</b>	<b>\$ 932,844</b>	<b>\$ (125,595)</b>	<b>\$ 1,089,521</b>	<b>\$ 31,082</b>
<b>Total Direct Expenses</b>	<b>\$ 2,068,855</b>	<b>\$ 1,896,443</b>	<b>\$ (172,412)</b>	<b>\$ 1,827,626</b>	<b>\$ (241,229)</b>
<b>Indirect Expenses</b>	<b>\$ (2,923,855)</b>	<b>\$ (1,896,443)</b>	<b>\$ 1,027,412</b>	<b>\$ (1,827,626)</b>	<b>\$ 1,096,229</b>
<b>Other Non-Operating Expenses</b>	<b>\$ 855,000</b>	<b>\$ -</b>	<b>\$ (855,000)</b>	<b>\$ -</b>	<b>\$ (855,000)</b>
<b>Total Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (0)</b>	<b>\$ (0)</b>
<b>Change in Assets</b>	<b>\$ 257,531</b>	<b>\$ 261,656</b>	<b>\$ 4,125</b>	<b>\$ (78,265)</b>	<b>\$ (335,796)</b>
<b>Fixed Assets</b>					
Depreciation	-	-	-	-	-
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
<b>(Incr)Dec in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Allocation of Fixed Assets	-	-	-	-	-
<b>Change in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>TOTAL CHANGE IN ASSETS</b>	<b>\$ 257,531</b>	<b>\$ 261,656</b>	<b>\$ 4,125</b>	<b>\$ (78,265)</b>	<b>\$ (335,796)</b>

NOTE: The salaries of the indirect employees in G&A, Legal, Information Technology, and Finance have been consolidated for personnel confidentiality and budgeted under G&A.

2010 Texas ~~Regional~~Reliability Entity Business Plan and Budget

Approved by Board of Directors: August 17, 2009

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Section B — 2010 Regional Entity Budget

Statement of Activities						
2010 Approved Budget & 2010 Amended Budget						
General and Administrative - After Structural Separation						
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	2010	2010	2010	2010	2010	2010
	Approved	Budget	Budget	Base Budget	Adjustment	Amended
	Budget	Start-Up	Recurring	Reductions	to the Approved	Budget
		Costs	Costs	(MOU Decreases)	Budget	
<b>Funding</b>						
<b>ERO Funding</b>						
ERO Assessments	\$ (80,265)	\$ -	\$ 349,842	\$ (161,632)	\$ 188,211	\$ 107,946
Penalty Sanctions	-	-	-	-	-	-
<b>Total ERO Funding</b>	<b>\$ (80,265)</b>	<b>\$ -</b>	<b>\$ 349,842</b>	<b>\$ (161,632)</b>	<b>\$ 188,211</b>	<b>\$ 107,946</b>
Membership Dues	-	-	27,000	-	27,000	27,000
Testing Fees	-	-	-	-	-	-
Services & Software	-	-	-	-	-	-
Workshops	-	-	-	-	-	-
Interest	2,000	-	-	-	-	2,000
Miscellaneous	-	-	-	-	-	-
<b>Total Funding</b>	<b>\$ (78,265)</b>	<b>\$ -</b>	<b>\$ 376,842</b>	<b>\$ (161,632)</b>	<b>\$ 215,211</b>	<b>\$ 136,946</b>
<b>Expenses</b>						
<b>Personnel Expenses</b>						
Salaries	\$ 539,855	\$ -	\$ 490,490	\$ -	\$ 490,490	\$ 1,030,345
Payroll Taxes	42,598	-	37,438	-	37,438	80,036
Benefits	54,570	-	47,960	-	47,960	102,530
Retirement Costs	80,324	-	70,594	-	70,594	150,918
<b>Total Personnel Expenses</b>	<b>\$ 717,347</b>	<b>\$ -</b>	<b>\$ 646,482</b>	<b>\$ -</b>	<b>\$ 646,482</b>	<b>\$ 1,363,829</b>
<b>Meeting Expenses</b>						
Meetings	\$ 3,600	\$ -	\$ -	\$ -	\$ -	\$ 3,600
Travel	17,158	-	-	-	-	17,158
Conference Calls	-	-	-	-	-	-
<b>Total Meeting Expenses</b>	<b>\$ 20,758</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 20,758</b>
<b>Operating Expenses</b>						
Consultants & Contracts	\$ 676,331	\$ 200,000	\$ 287,675	\$ (559,523)	\$ (71,848)	\$ 604,483
Office Rent	327,600	-	229,725	(193,425)	36,300	363,900
Office Costs	24,240	-	4,590	-	4,590	28,830
Professional Services	60,000	-	15,300	-	15,300	75,300
Miscellaneous	1,350	-	-	-	-	1,350
Depreciation	-	-	146,550	-	146,550	146,550
<b>Total Operating Expenses</b>	<b>\$ 1,069,521</b>	<b>\$ 200,000</b>	<b>\$ 683,840</b>	<b>\$ (752,948)</b>	<b>\$ 130,892</b>	<b>\$ 1,220,413</b>
<b>Total Direct Expenses</b>	<b>\$ 1,827,626</b>	<b>\$ 200,000</b>	<b>\$ 1,330,322</b>	<b>\$ (752,948)</b>	<b>\$ 777,374</b>	<b>\$ 2,605,000</b>
<b>Indirect Expenses</b>	<b>\$ (1,827,626)</b>	<b>\$ (200,000)</b>	<b>\$ (1,330,322)</b>	<b>\$ 752,948</b>	<b>\$ (777,374)</b>	<b>\$ (2,605,000)</b>
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total Expenses</b>	<b>\$ (0)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (0)</b>
<b>Change in Assets</b>	<b>\$ (78,265)</b>	<b>\$ -</b>	<b>\$ 376,842</b>	<b>\$ (161,632)</b>	<b>\$ 215,211</b>	<b>\$ 136,946</b>
<b>Fixed Assets</b>						
Depreciation	\$ -	\$ -	\$ (146,550)	\$ -	\$ (146,550)	\$ (146,550)
Computer & Software CapEx	-	-	-	-	-	-
Furniture & Fixtures CapEx	-	317,000	-	-	317,000	317,000
Equipment CapEx	-	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-	-
<b>(Incr)Dec in Fixed Assets</b>	<b>\$ -</b>	<b>\$ (317,000)</b>	<b>\$ 146,550</b>	<b>\$ -</b>	<b>\$ (170,450)</b>	<b>\$ (170,450)</b>
Allocation of Fixed Assets	\$ -	\$ 317,000	\$ (146,550)	\$ -	\$ 170,450	\$ 170,450
<b>Change in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>TOTAL CHANGE IN ASSETS</b>	<b>\$ (78,265)</b>	<b>\$ -</b>	<b>\$ 376,842</b>	<b>\$ (161,632)</b>	<b>\$ 215,211</b>	<b>\$ 136,946</b>

NOTE: The salaries of the indirect employees in G&A, Legal, Information Technology, and Finance have been consolidated for personnel confidentiality and budgeted under G&A.

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**Explanations of Variances – Proposed 2010 Amended Budget versus 2009-Approved 2010 Budget**

**Funding Sources**

- ~~The 2010 funding requirements are increasing \$215K over the 2010 budget, Approved Budget. ERO assessments are increasing by \$188K, and Texas RE expects to receive \$27K for membership fees, which were not provided for in the 2010 Approved Budget. The 2010 Approved Budget assumed unspent funds of \$78K; therefore, the net funding requirement for 2010 is decreasing (\$336K)-\$137K. Indirect programs allocate their program costs are allocated to the direct programs. In 2010, Texas RE is further reducing assessments by \$78K using unspent funds from 2009 statutory programs.~~

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**Personnel Expenses**

- ~~The primary reason for the decrease of \$280K/increase of \$646K for Statutory Personnel Expenses is that Texas RE will need to hire additional staff (in addition to the partial outsourcing of) certain of its human resources (HR) and information technology (IT) services that were formerly performed by ERCOT ISO under the MOU at a lower cost. The budget for Personnel Expenses is resulting from consolidated to ensure the confidentiality of individual salaries under the General & Administrative budget. Texas RE will need to hire the following positions:~~
  - o ~~One (1) HR Manager to support and facilitate the HR and benefits functions for Texas RE and its employees.~~
  - o ~~One (1) Member Services Administrator to oversee administration of membership information and enrollment and to coordinate committee meetings and activities.~~
  - o ~~One (1) Finance and Accounting Manager to maintain the accounting system, financial/internal controls, budget development, payroll processing, accounts payable, accounts receivable, increased management, accountability, fixed assets, financial statement preparation and auditor interface.~~
  - o ~~One (1) Attorney to perform primarily corporate legal services, such as negotiation and preparation of contracts and other direct work in Reliability Standards, Compliance Monitoring and Enforcement and Organization Registration and Certification Program, Reliability Assessment, Training, Situational Awareness, and Critical Infrastructure Protection areas. Texas RE uses time tracking to better enable the recording of direct labor expenses to the program level. Those tasks that are considered required documentation for goods, services, software licenses, and HR benefit plans, and HR legal services, all of which were previously included in the HR, information technology, finance, and other administrative services are allocated as an indirect expense to the program areas that were provided by ERCOT ISO under the MOU.~~
  - o ~~Two (2) IT employees to provide Texas RE with the appropriate level of IT support and skill necessary to maintain its network infrastructure and data~~

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Section B — 2010 Regional Entity Budget

integrity, provide desk-side support to Texas RE staff, facilitate specialized software and applications support, develop project scheduling / priority project lists, and project requirements engineering documentation (policies, procedures) creation.

**Meeting Expenses**

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

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**Operating Expenses**

- Consulting and contract expenses are increasing in direct response to employee increases as well as trended actual expenses. This expense increase is related to the MOU between Texas RE and ERCOT-ISO. The resulting increase is expected to be \$180K. Office costs are increasing \$11K primarily related to trends in office supply consumption as well as expected increases. There is an additional \$30K being provisioned for professional outside services as may be required by program use. Offsetting the increases are a reduction in training expenses (\$0K), these expenses are now budgeted in their respective programs, as well as a reduction in the rent expense in 2010 (\$190K). The reduction is rent reflected a lower rentable square foot rate obtained by Texas RE for its office space as well as a reduction in the facilities services expenses paid through the MOU.

**Indirect Expenses**

- Indirect expense is decreasing significantly \$1,096K, year-over-year primarily attributed to identifying the direct cost components that were budgeted in G&A in the 2009 budget. These costs are more appropriately reflected as direct program costs in the functional areas due to the nature of the work being performed.

- No additional travel is anticipated for the Amended 2010 Budget.

**Operating Expenses**

- Consulting and contract expenses are decreasing \$72K, due to the net effect of reductions from the elimination of the MOU. Texas RE expects an increase in rent and facilities-related expenses of \$36K for 2010, due to a possible move at the end of 2010, because of space constraints and the expiration of Texas RE's present lease on December 31, 2010. The recurring costs are also increasing by \$15K for Professional Services and \$5K for Office Costs which are not included in the 2010 Approved Budget. Finally, depreciation expenses are increasing \$147K as a result of fixed asset purchases required as part of the start-up costs.

**Indirect Expenses**

- The entire program/activity expense reflected for G&A will be treated as indirect expense.

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Section B — 2010 Regional Entity Budget

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**Other Non-Operating Expenses**

- ~~Non-Operating expenses are decreasing from 2009 to 2010. Due to the change from cash-based to GAAP based budgeting, the cash reserve is no longer funded as a non-operating expense, this resulted in a decrease year-over-year of \$855K.~~
- None.

**Fixed Asset Additions**

- ~~N/A~~
- Office furniture and equipment for all Texas RE staff (office and conference room furniture, computers, servers, telephone system, software, etc.) totaling \$317K will need to be acquired as part of the start-up costs. This will be offset from a funding perspective by depreciation expense of \$147K.

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## Legal and Regulatory

### Program Scope and Functional Description

Texas RE Legal and Regulatory provides legal advice and counsel to Texas RE management, board, and staff on all legal and regulatory matters affecting Texas RE, including corporate governance, transactions, personnel, governmental relations, communications, NERC registration, standards development, compliance, enforcement, and other regulatory matters. Legal staff also retains and oversees the work of outside legal counsel as needed. Legal and Regulatory employees anticipate that the primary regulatory emphasis during 2010 will include NERC registration appeals, investigation oversight, settlement coordination, and enforcement proceedings under the CMEP. Legal and Regulatory employees will also continue to review and provide feedback to NERC regarding new and modified standards, procedures, and templates used in the CMEP process. Texas RE attorneys, or outside counsel overseen by Texas RE attorneys, will represent the Texas RE in its quasi-prosecutorial role in CMEP enforcement hearings, and in NERC, FERC, and PUCT rulemakings and other proceedings. In addition to overseeing Board meetings and activities, Texas RE Legal and Regulatory staff will oversee and coordinate corporate membership enrollment, information, and meetings and will coordinate and oversee the Member Representatives Committee activities.

### 2010 Key Assumptions

Texas RE Legal and Regulatory has the following key assumptions:

- A. Original Texas RE will ~~remain functionally~~ continue to perform all Statutory and Non-statutory activities until Implementation.
- B. Upon Implementation, Texas RE will perform the Statutory and Non-statutory activities and will operate as a separate corporation, not associated with or affiliated with ERCOT ISO, and Texas RE will receive no administrative services from ERCOT ISO and will not undergo any significant board or governance changes (caused by board or
- A-C. Legal and Regulatory will oversee and coordinate corporate membership decisions, the NERC three-year Assessment, the FERC audit of Texas RE, or otherwise) and Member Representative Committee activities.
- B-D. The Delegation Agreement requirements and NERC expectations will remain constant consistent.
- C-E. The majority of possible violations will be handled through the settlement process.
- D-F. The number of contested registration and enforcement cases will remain low — ~~one~~ fairly low, but will increase to two large or ~~two~~ up to three small-to-mid-sized disputes per year.

### 2010 Goals and Key Deliverables

1. Coordinate Texas RE board information, meetings, and materials and maintain corporate bylaws and corporate procedures as required by law, the Delegation Agreement, NERC Rules, and FERC Orders.

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2. Provide legal advice to the CEO and the Texas RE board, ~~advisory committee board committees~~, and departments, as needed on corporate, contract, ~~and~~ transactional, ~~regulatory, enforcement~~, and other matters.
3. Represent Texas RE in all NERC, FERC, regulatory matters, and legal proceedings.
4. Prosecute CMEP hearings of contested enforcement matters.
5. Act as a resource for investigations to help ensure accurate, appropriate and complete documentation is maintained and consistent procedures are followed.
6. Communicate and maintain effective relationships with NERC, FERC, the PUCT, and other governmental authorities.
7. Manage and oversee all Texas RE registration and enforcement action appeals.
8. Review Texas RE alleged violations, penalties, and sanctions for consistency.
9. Participate in settlement processes and review all settlements for consistent application of the CMEP.
10. Review and provide input to NERC regarding new and modified standards, procedures, forms, and templates.

**Funding Requirements — Explanation of Increase (Decrease) Over 2010 Approved Budget**

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

All expenses for this program are allocated to the statutory direct programs.

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**Section B — 2010 Regional Entity Budget**

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**Legal and Regulatory**

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

Section B — 2010 Regional Entity Budget

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

NOTE: The salaries of the indirect employees in G&A, Legal, Information Technology, and Finance have been consolidated for personnel confidentiality and budgeted under G&A.

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Statement of Activities						
2010 Approved Budget & 2010 Amended Budget						
Legal and Regulatory - After Structural Separation						
	[1]	[2]	[3]	[4]	[2]+[3]+[4]=[5]	[1]+[5]=[6]
	2010 Approved Budget	2010 Budget Start-Up Costs	2010 Budget Recurring Costs	2010 Base Budget Reductions (MOU Decreases)	2010 Adjustment to the Approved Budget	2010 Amended Budget
<b>Funding</b>						
<b>ERO Funding</b>						
ERO Assessments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Penalty Sanctions	-	-	-	-	-	-
<b>Total ERO Funding</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Membership Dues	-	-	-	-	-	-
Testing Fees	-	-	-	-	-	-
Services & Software	-	-	-	-	-	-
Workshops	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-
<b>Total Funding</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Expenses</b>						
<b>Personnel Expenses</b>						
Salaries	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Payroll Taxes	-	-	-	-	-	-
Benefits	-	-	-	-	-	-
Retirement Costs	-	-	-	-	-	-
<b>Total Personnel Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Meeting Expenses</b>						
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	4,478	-	-	-	-	4,478
Conference Calls	-	-	-	-	-	-
<b>Total Meeting Expenses</b>	<b>\$ 4,478</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 4,478</b>
<b>Operating Expenses</b>						
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-	-	-	-	-	-
Office Costs	5,400	-	-	-	-	5,400
Professional Services	48,000	-	90,000	-	90,000	138,000
Miscellaneous	6,200	-	-	-	-	6,200
Depreciation	-	-	-	-	-	-
<b>Total Operating Expenses</b>	<b>\$ 59,600</b>	<b>\$ -</b>	<b>\$ 90,000</b>	<b>\$ -</b>	<b>\$ 90,000</b>	<b>\$ 149,600</b>
<b>Total Direct Expenses</b>	<b>\$ 64,078</b>	<b>\$ -</b>	<b>\$ 90,000</b>	<b>\$ -</b>	<b>\$ 90,000</b>	<b>\$ 154,078</b>
<b>Indirect Expenses</b>	<b>\$ (64,078)</b>	<b>\$ -</b>	<b>\$ (90,000)</b>	<b>\$ -</b>	<b>\$ (90,000)</b>	<b>\$ (154,078)</b>
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Change in Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Fixed Assets</b>						
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Computer & Software CapEx	-	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-	-
Equipment CapEx	-	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-	-
<b>(Incr)Dec in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Allocation of Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Change in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>TOTAL CHANGE IN ASSETS</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

NOTE: The salaries of the indirect employees in G&A, Legal, Information Technology, and Finance have been consolidated for personnel confidentiality and budgeted under G&A.

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Section B — 2010 Regional Entity Budget

Explanations of Variances – Proposed 2010 Amended Budget versus 2009 Approved 2010 Budget

Funding Sources

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

Personnel Expenses

- Reflected under Texas RE is adding one (1) Attorney and one (1) Member Services Administrator, due to the increased workload that was formerly performed for Original Texas RE under the MOU with ERCOT ISO. However, those employees are reflected under G&A for personnel confidentiality purposes. The FTE's are segregated on detail for the headcount is reflected in Table 2 within Section B.

Meeting Expenses

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

Operating Expenses

- Professional services (external legal) expenses are now budgeted where they are likely to be incurred \$252K, which is in support of the direct program functions. However, the expenses remaining within this indirect program are of a more administrative services nature and are allocated as an indirect expense.
- No additional travel is anticipated.

Operating Expenses

- Legal and Regulatory requires an additional \$90K to pay for outside legal counsel expenses. This increased expense is not related to the formation of Texas RE as a separate legal entity. This is to ensure that there are sufficient funds to cover the anticipated additional registration or enforcement disputes.

Indirect Expenses

- Indirect expense is decreasing significantly \$250K, year-over-year primarily attributed to identifying the direct cost components that were budgeted in legal and regulatory in 2009. These costs are more appropriately reflected as direct program costs in the functional areas due to the nature of the work being performed None.

Other Non-Operating Expenses

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- ~~N/A~~
- None.

**Fixed Asset Additions**

- ~~N/A~~
- None.

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## Information Technology

### Program Scope and Functional Description

Texas RE's IT ~~staff~~employees will provide a broad range of information technology support to Texas RE, including the following: strategy; research; vendor management; planning, development, and deployment of enterprise systems and computer applications/systems in support of business needs; and support, training, and maintenance for these systems and applications.

IT staff will work with Texas RE management to develop a technological strategy to reach Texas RE's long-term goals and meet immediate system and hardware needs. In addition, IT ~~Staff~~staff will research and implement technologies for the purpose of increasing Texas RE efficiency and/or reducing workload.

In addition to its internal development efforts, IT ~~staff~~employees will ~~use~~outsource a mix of services ~~from external to third-party~~ vendors. ~~This will require a great deal of time and resources during the early part of 2010, as Texas RE competitively resources and acquires the information technology equipment and services that were performed for Original Texas RE by ERCOT ISO's IT department. ISO under the MOU.~~ To ensure that applications and hardware are well maintained, service levels remain high, and costs are controlled, IT staff will provide vendor management and coordinate with ~~ERCOT ISO~~external IT ~~staff~~vendors on day-to-day support, administration, and future requirements. ~~For project and outsourcing agreements, IT staff will also work closely with Finance, Legal, and ERCOT ISO Procurement to provide specialized knowledge and the contractual details for the technical service to be provided.~~

IT staff also has the general responsibility to keep Texas RE systems up-to-date with evolving industry standards. ~~IT staff and~~ will work with other ~~regional entities~~Regional Entities and NERC to that end.

IT staff will manage the design, implementation, support, and maintenance of the tools and delivery mechanisms to support the communication of information to the market, specifically the Texas RE website, Texas RE ~~e-mail~~email boxes and lists, and Web-based training.

IT staff will also manage the design, ~~implement~~implementation, support, and ~~maintain~~maintenance of Texas RE data and records-management tools to support the Standards, Registration, and CMEP programs, as well as improving registered entities' ability to participate in the processes. Specifically, such tools include the Texas ~~Regional~~RE Entity Portal and associated tools for management and tracking, the Reliability Standards tracking tool, ~~the compliance and enforcement data management system~~, and the electronic document management system. IT staff will also assist with the transition of Texas RE ~~Staff's~~staff's ability to receive or view necessary data in ERCOT ISO nodal systems. IT staff will also participate in

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the design and development of database models, web-enabled applications, data extraction and delivery methods, and data presentation.

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2010 Key Assumptions

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- ~~The 2010 budget assumes that~~Original Texas RE ~~remains a division of ERCOT ISO, with the ability will continue to purchase some~~procure key IT equipment and services (such as computers and support, email and support, phone service and support, enterprise servers, and WebEx) ~~from ERCOT ISO, but not including any services relating to the portal) from ERCOT ISO for at least several months of 2010, until these services can be performed by new employees or third-party vendors, which will occur prior to Implementation.~~
- ~~The 2010 budget assumes that~~ Texas RE ~~continues~~will receive no IT services from ERCOT ISO.
- Original Texas RE is in the process of competitively procuring its IT equipment (including computers, servers, telephone systems, etc.), software, and all required IT services from qualified third-parties, and it will implement a transition of the IT services from ERCOT ISO as part of the Texas RE start up costs.
- Texas RE will require two (2) additional IT employees to ~~work as~~perform services that are currently provided by ERCOT ISO under the MOU.
- Texas RE will outsource many key IT services (email server hosting and service, desk side support services, telecommunications services, etc.) to third parties, at a cost greater than Original Texas RE paid to ERCOT ISO under the MOU.
- Texas RE will be a member of the Consortium User Group to collaborate on and share the costs of development for the portal software with other ~~regional entities~~Regional Entities.

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2010 Goals and Key Deliverables

IT objectives for 2010 include the following:

- ~~Develop~~Implement and monitor long-term strategy in response to business needs.

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2. ~~Research~~Continue to research, and develop, and/or purchase software and hardware to respond to immediate business needs.
3. Manage vendors to ensure quality of services and applications, responsiveness to Texas RE needs, and cost controls.
- ~~4. Liaise with ERCOT ISO IT staff regarding IT systems and tools.~~
4. Provide vendor management support / IT department management support (security, disaster recovery, service management, self-assessment, lifecycle management)
5. Work effectively with other regional entities and NERC to ensure that Texas RE remains consistent.
6. Assist in ensuring information systems are functional and secure, and that applications running on those systems meet business requirements for performance, availability, and security.
7. Provide or oversee desk side support to Texas RE staff.
8. Support specialized software and applications.
9. Oversee project scheduling and priority project lists.
10. Engineer project requirements.
11. Ensure documentation (policies, procedures) creation and management for IT operations.
12. Train and support staff on software and applications.
13. Implement and oversee all Texas RE electronic systems and tools.

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

~~In the Over 2010 budget, the funding requirement is decreasing (\$384K).~~ **Approved Budget**

- Indirect ~~programs allocate their program~~ costs are allocated to the direct programs.

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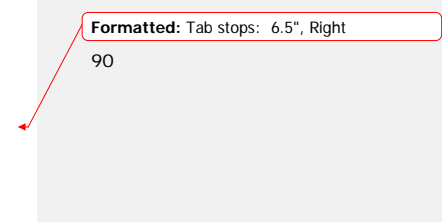
**Information Technology**

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

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

NOTE: The salaries of the indirect employees in G&A, Legal, Information Technology, and Finance have been consolidated for personnel confidentiality and budgeted under G&A.

2010 Texas ~~Regional~~Reliability Entity Business Plan and Budget

Approved by Board of Directors: August 17, 2009

January 18, 2010

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Section B — 2010 Regional Entity Budget

Statement of Activities						
2010 Approved Budget & 2010 Amended Budget						
Information Technology - After Structural Separation						
	[1]	[2]	[3]	[4]	[2]+[3]+[4]=[5]	[1]+[5]=[6]
	2010	2010	2010	2010	2010	2010
	Approved	Budget	Budget	Base Budget	Adjustment	Amended
	Budget	Start-Up	Recurring	Reductions	to the Approved	Budget
		Costs	Costs	(MOU Decreases)	Budget	
<b>Funding</b>						
<b>ERO Funding</b>						
ERO Assessments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Penalty Sanctions	-	-	-	-	-	-
<b>Total ERO Funding</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Membership Dues	-	-	-	-	-	-
Testing Fees	-	-	-	-	-	-
Services & Software	-	-	-	-	-	-
Workshops	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-
<b>Total Funding</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Expenses</b>						
<b>Personnel Expenses</b>						
Salaries	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Payroll Taxes	-	-	-	-	-	-
Benefits	-	-	-	-	-	-
Retirement Costs	-	-	-	-	-	-
<b>Total Personnel Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Meeting Expenses</b>						
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	4,057	-	-	-	-	4,057
Conference Calls	-	-	-	-	-	-
<b>Total Meeting Expenses</b>	<b>\$ 4,057</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 4,057</b>
<b>Operating Expenses</b>						
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-	-	-	-	-	-
Office Costs	960	-	-	-	-	960
Professional Services	33,860	-	180,873	-	180,873	214,733
Miscellaneous	6,500	-	-	-	-	6,500
Depreciation	12,000	-	-	-	-	12,000
<b>Total Operating Expenses</b>	<b>\$ 53,320</b>	<b>\$ -</b>	<b>\$ 180,873</b>	<b>\$ -</b>	<b>\$ 180,873</b>	<b>\$ 234,193</b>
<b>Total Direct Expenses</b>	<b>\$ 57,377</b>	<b>\$ -</b>	<b>\$ 180,873</b>	<b>\$ -</b>	<b>\$ 180,873</b>	<b>\$ 238,250</b>
<b>Indirect Expenses</b>	<b>\$ (57,377)</b>	<b>\$ -</b>	<b>\$ (180,873)</b>	<b>\$ -</b>	<b>\$ (180,873)</b>	<b>\$ (238,250)</b>
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Change in Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Fixed Assets</b>						
Depreciation	\$ (12,000)	\$ -	\$ -	\$ -	\$ -	\$ (12,000)
Computer & Software CapEx	32,263	634,000	-	-	634,000	666,263
Furniture & Fixtures CapEx	-	-	-	-	-	-
Equipment CapEx	-	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-	-
<b>(Incr)Dec in Fixed Assets</b>	<b>\$ (20,263)</b>	<b>\$ (634,000)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (634,000)</b>	<b>\$ (654,263)</b>
Allocation of Fixed Assets	\$ 20,263	\$ 634,000	\$ -	\$ -	\$ 634,000	\$ 654,263
<b>Change in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>TOTAL CHANGE IN ASSETS</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

NOTE: The salaries of the indirect employees in G&A, Legal, Information Technology, and Finance have been consolidated for personnel confidentiality and budgeted under G&A.

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Section B — 2010 Regional Entity Budget

**Explanations of Variances – Proposed 2010 Amended Budget versus 2009 2010 Approved Budget**

**Funding Sources**

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

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**Personnel Expenses**

- ~~Reflected under There are two (2) additional IT positions included in Texas RE's budget for 2010, to perform some of the services provided to Original Texas RE under the MOU with ERCOT ISO. These positions have been reflected under G&A for personnel confidentiality purposes. The FTE's are segregated on However, the detail for the headcount is reflected in Table 2 within Section B.~~

**Meeting Expenses**

- ~~Travel costs are increasing approximately \$4K. This is primarily related to the need to meet with the Consortium User Group and NERC working groups. No additional meeting and travel expense is provided for in the 2010 Amended Budget.~~

**Operating Expenses**

- ~~Professional IT services (hosting and professional services) expenses are now budgeted where they are likely to be incurred, which is in for Microsoft Exchange and other servers, desk side support of the functions and direct programs \$26K less, year over year. However, the expenses remaining, maintenance, etc. are expected to increase \$181K over Original Texas RE's 2010 Approved Budget, due to the higher costs of obtaining these services from outside providers. These expenses which are within this indirect program are of a more administrative services nature and are required to maintain the IT functionality for all of Texas RE's Statutory activities and should be allocated as an indirect expense.~~

**Indirect Expenses**

- ~~Indirect expense is decreasing \$80K, year over year primarily attributed to identifying the direct cost components that were budgeted in Information Technology in 2009. These costs are more appropriately reflected as direct program costs in the functional areas due to the nature of the work being performed. None.~~

**Other Non-Operating Expenses**

- ~~N/A~~
- None.

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**Fixed Asset Additions**

- ~~Fixed assets are now budgeted where they are likely to be incurred, which is in support of the functions and direct programs. The result is a net reduction in indirect allocations of \$200K. However, the expenses remaining within this indirect program are of a more administrative services nature and are allocated as an indirect expense.~~
- ~~The allocation of fixed assets is also decreasing for the reason specified above. The amount of the decrease is expected to be, \$226K year-over-year.~~

Section B — 2010 Regional Entity Budget

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**Finance and Accounting**

- The IT start-up fixed asset additions include computer systems for all employees, servers, LAN, software, telephone systems (PBX), monitors, and printers. There is an expected one-time start-up cost for these items totaling \$634K, which is allocated to the direct programs.

## Human Resources

### Program Scope and Functional Description

The Finance staff will provide a broad range of support to Texas RE management and personnel. FinanceOriginal Texas RE has not had a Human Resources Department, as all Human Resources services are obtained from ERCOT under the MOU. The Texas RE Human Resources department will provide a broad range of support and human resources advice to all Texas RE employees. The HR function consists of overseeing all employee benefit programs and performing or overseeing all traditional human resources activities, including recruiting, on-boarding, developing, and counseling employees, maintaining job descriptions and market salary information, maintaining personnel policies and procedures, tracking existing employee data which traditionally includes personnel histories, skills, capabilities, accomplishments and salary. The HR function also encompasses such responsibilities as maintaining the Payroll Master File, benefits administration, HR Management Information Systems oversight, Training/Learning Management System, and overseeing and managing the employee performance review process and records. This department will play a pivotal role in the structural separation process, as the benefits programs and HR tools are established, and will also coordinate all of the HR-related filings and reporting with all governmental entities.

The Human Resources function will oversee the on-boarding and off-boarding of employees in a manner that ensures company policies are appropriately followed. This department is critical to ensure that Texas RE attracts and retains top talent within the company. Texas RE intends to have one HR Manager and to outsource many of its HR and employee benefit duties to third parties, under the guidance of the HR Manager.

### 2010 Key Assumptions

- Texas RE will formally hire employees upon the Implementation.
- Texas RE will hire a dedicated HR Manager to support Texas RE's human resource needs and oversee the vendors that provide human resources and benefit plan administration services to Texas RE.
- The HR Manager will be hired by Original Texas RE in early 2010 and prior to Implementation, to oversee the selection and implementation of the third-party vendors that will provide the human resource services and benefits programs for Texas RE staff upon Implementation and to help finalize personnel policies and procedures.
- Appropriate employee benefits will be provided for all Texas RE employees, similar to the benefits that were provided by ERCOT to employees of Original Texas RE.

### Funding Requirements — Explanation of Increase (Decrease) Over 2010 Approved Budget

- Indirect program costs are allocated to the direct programs.

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**Human Resources**

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

<b>Statement of Activities</b>						
<b>2010 Approved Budget &amp; 2010 Amended Budget</b>						
<b>Human Resources - After Structural Separation</b>						
	[1]	[2]	[3]	[4]	[2]+[3]+[4]=[5]	[1]+[5]=[6]
	2010 Approved Budget	2010 Budget Start-Up Costs	2010 Budget Recurring Costs	2010 Base Budget Reductions (MOU Decreases)	2010 Adjustment to the Approved Budget	2010 Amended Budget
<b>Funding</b>						
<b>ERO Funding</b>						
ERO Assessments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Penalty Sanctions	-	-	-	-	-	-
<b>Total ERO Funding</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Membership Dues	-	-	-	-	-	-
Testing Fees	-	-	-	-	-	-
Services & Software	-	-	-	-	-	-
Workshops	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-
<b>Total Funding</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Expenses</b>						
<b>Personnel Expenses</b>						
Salaries	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Payroll Taxes	-	-	-	-	-	-
Benefits	-	-	-	-	-	-
Retirement Costs	-	-	-	-	-	-
<b>Total Personnel Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Meeting Expenses</b>						
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	-	-	-	-	-	-
Conference Calls	-	-	-	-	-	-
<b>Total Meeting Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Operating Expenses</b>						
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-	-	-	-	-	-
Office Costs	-	-	-	-	-	-
Professional Services	-	-	121,720	-	121,720	121,720
Miscellaneous	-	-	-	-	-	-
Depreciation	-	-	-	-	-	-
<b>Total Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 121,720</b>	<b>\$ -</b>	<b>\$ 121,720</b>	<b>\$ 121,720</b>
<b>Total Direct Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 121,720</b>	<b>\$ -</b>	<b>\$ 121,720</b>	<b>\$ 121,720</b>
<b>Indirect Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (121,720)</b>	<b>\$ -</b>	<b>\$ (121,720)</b>	<b>\$ (121,720)</b>
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Change in Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Fixed Assets</b>						
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Computer & Software CapEx	-	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-	-
Equipment CapEx	-	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-	-
<b>(Incr)Dec in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Allocation of Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Change in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>TOTAL CHANGE IN ASSETS</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

NOTE: The salaries of the indirect employees in C&A, Legal, Information Technology, and Finance have been consolidated for personnel confidentiality and budgeted under G&A.

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**Explanations of Variances – Proposed 2010 Amended Budget versus Approved 2010 Budget**

**Funding Sources**

Indirect program costs are allocated to the direct programs.

**Personnel Expenses**

- There is an HR Manager position that will be hired to perform this function; however that position has been reflected under G&A for personnel confidentiality purposes. The detail for the headcount is reflected in Table 2 within Section B.

**Meeting Expenses**

- None.

**Operating Expenses**

- The increased cost for benefits administration and employee recruitment will be \$71K and \$51K, respectively. The Human Resources program code is new for Texas RE, because benefits administration was provided for Original Texas RE under the MOU (for a lower cost) and was reflected in the 2010 Approved Budget under the General and Administrative Statement of Activities. These increased benefits administration and recruitment costs are net of the amounts paid by Original Texas RE to ERCOT under the MOU, which are included in the amounts reflected under column 4 of the General and Administrative Statement of Activities. Texas RE will use the Human Resource program code in future budgets.

**Indirect Expenses**

- None.

**Other Non-Operating Expenses**

- None.

**Fixed Asset Additions**

- None.

## Finance and Accounting

### Program Scope and Functional Description

~~The Finance and Accounting staff will provide a broad range of support to Texas RE management and personnel. Finance and Accounting staff are required to formulate and monitor the Texas RE budget for controlling funds to implement the Texas RE's objectives and will also review and evaluate the performance of key processes for maintaining tight financial controls in a cost-effective and efficient manner. Finance and Accounting staff will guide the annual budget process for the Texas RE and measure performance of all key aspects of the Texas RE to ensure performance matches or exceeds expectations, including the analysis of trends affecting budget needs and developing periodic financial reports. Finance staff will liaise with ERCOT ISO Finance staff to ensure all finance and budget-related requirements are communicated, met, and adhered to.~~

Texas RE's monthly general ledger close activities will be managed by Texas RE ~~financial~~ Finance and Accounting personnel. The Finance and Accounting staff ~~is~~ are required to ensure Texas RE appropriately accounts for all Statutory and Non-statutory expenses and revenue appropriately. This will involve generating monthly financial reports that will be communicated to the CEO, the department managers and the board.

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

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

### **2010 Key Assumptions**

- Texas RE will ~~remain functionally separate from ERCOT ISO and will not undergo any significant governance or Delegation Agreement changes~~ be required to hire an additional employee to manage this function prior to Implementation, to transition the services that were previously provided to Texas RE through the MOU with ERCOT ISO.

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Section B — 2010 Regional Entity Budget

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- ~~The Delegation Agreement requirements will remain consistent with the current requirements.~~

**2010 Goals and Key Deliverables**

1. Ensure that the accounting ~~and~~ finance ~~and budgeting~~ functions are appropriately managed at Texas RE.
2. Keep the CEO informed of budget, expenditures, and total operational financial performance.
3. Continue to facilitate the Financial Reporting for the Board.
4. Ensure that Texas RE receives an unqualified opinion on the audit of the financial statements.
5. Continue to support ~~and coordinate with~~ NERC finance staff ~~in coordination of to meet~~ quarterly and annual reporting requirements.
6. Review workflow and adjust as required to better enable Texas RE staff operational success.

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

~~In the Over 2010 budget, the funding requirement is decreasing (\$39K).~~ **Approved Budget**

- ~~Indirect programs allocate their~~ **program** costs **are allocated** to the direct programs.

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**Section B — 2010 Regional Entity Budget**

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**Finance and Accounting**

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

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Section B — 2010 Regional Entity Budget

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

NOTE: The salaries of the indirect employees in G&A, Legal, Information Technology, and Finance have been consolidated for personnel confidentiality and budgeted under G&A.

2010 Texas ~~Regional~~Reliability Entity Business Plan and Budget

Approved by Board of Directors: August 17, 2009

January 18, 2010

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Section B — 2010 Regional Entity Budget

Statement of Activities						
2010 Approved Budget & 2010 Amended Budget						
Finance and Accounting - After Structural Separation						
	[1]	[2]	[3]	[4]	[2]+[3]+[4]=[5]	[1]+[5]=[6]
	2010 Approved Budget	2010 Budget Start-Up Costs	2010 Budget Recurring Costs	2010 Base Budget Reductions (MOU Decreases)	2010 Adjustment to the Approved Budget	2010 Amended Budget
<b>Funding</b>						
<b>ERO Funding</b>						
ERO Assessments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Penalty Sanctions	-	-	-	-	-	-
<b>Total ERO Funding</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Membership Dues	-	-	-	-	-	-
Testing Fees	-	-	-	-	-	-
Services & Software	-	-	-	-	-	-
Workshops	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-
<b>Total Funding</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Expenses</b>						
<b>Personnel Expenses</b>						
Salaries	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Payroll Taxes	-	-	-	-	-	-
Benefits	-	-	-	-	-	-
Retirement Costs	-	-	-	-	-	-
<b>Total Personnel Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Meeting Expenses</b>						
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	2,145	-	-	-	-	2,145
Conference Calls	-	-	-	-	-	-
<b>Total Meeting Expenses</b>	<b>\$ 2,145</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,145</b>
<b>Operating Expenses</b>						
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-	-	-	-	-	-
Office Costs	880	-	-	-	-	880
Professional Services	45,281	16,500	189,190	(33,961)	171,729	217,010
Miscellaneous	4,095	-	8,606	-	8,606	12,701
Depreciation	-	-	-	-	-	-
<b>Total Operating Expenses</b>	<b>\$ 50,256</b>	<b>\$ 16,500</b>	<b>\$ 197,796</b>	<b>\$ (33,961)</b>	<b>\$ 180,335</b>	<b>\$ 230,591</b>
<b>Total Direct Expenses</b>	<b>\$ 52,401</b>	<b>\$ 16,500</b>	<b>\$ 197,796</b>	<b>\$ (33,961)</b>	<b>\$ 180,335</b>	<b>\$ 232,736</b>
<b>Indirect Expenses</b>	<b>\$ (52,401)</b>	<b>\$ (16,500)</b>	<b>\$ (197,796)</b>	<b>\$ 33,961</b>	<b>\$ (180,335)</b>	<b>\$ (232,736)</b>
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Change in Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Fixed Assets</b>						
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Computer & Software CapEx	-	41,000	-	-	41,000	41,000
Furniture & Fixtures CapEx	-	-	-	-	-	-
Equipment CapEx	-	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-	-
<b>(Incr)Dec in Fixed Assets</b>	<b>\$ -</b>	<b>\$ (41,000)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (41,000)</b>	<b>\$ (41,000)</b>
Allocation of Fixed Assets	\$ -	\$ 41,000	\$ -	\$ -	\$ 41,000	\$ 41,000
<b>Change in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>TOTAL CHANGE IN ASSETS</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

NOTE: The salaries of the indirect employees in G&A, Legal, Information Technology, and Finance have been consolidated for personnel confidentiality and budgeted under G&A.

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**Explanations of Variances – 2010 Amended Budget versus ~~2009~~ Approved 2010 Budget**

**Funding Sources**

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

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**Personnel Expenses**

- ~~Reflected~~ Texas RE is hiring one (1) Finance and Accounting Manager which is reflected under G&A for personnel confidentiality purposes. ~~The FTE's are segregated on~~ However, the detail for the employee is reflected in Table 2 within Section B.
- The new employee will need to be hired in early 2010 and prior to the approval by FERC of the Delegation Agreement, so that this employee can provide assistance in procuring the needed financial tools and preparing for the transition of the finance and accounting services from ERCOT ISO (under the MOU) to be performed by Texas RE.

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**Meeting Expenses**

- ~~Travel costs are decreasing approximately \$.3K year over year. The REBG has agreed to have at least one meeting via conference call or web-ex~~ None.

**Operating Expenses**

- ~~Office costs are increasing by \$.9K for check stock used for Texas RE's operating account.~~
- ~~The financial statement audit fees for Texas RE are expected to increase by approximately \$9K based on actual results from the 2008 financial statement audit.~~
- ~~Texas RE expects bank fees in 2010 to be approximately \$3K higher year over year. Professional services will need to be procured to supplement the Finance and Accounting function, including: electronic expense reporting of \$21K, timekeeping and processing payroll of \$26K, outsourced internal audit function of \$43K, and increased insurance coverage costs of \$82K. Insurance coverage was previously included in the Original Texas RE's MOU with ERCOT ISO, and so this is a new expense in this category for 2010.~~
- ~~Additionally, there are professional dues included under the treasury function set-up and maintenance fees are budgeted in miscellaneous expense, \$.5K expenses and this is expected to be approximately \$9K for 2010.~~

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**Indirect Expenses**

- ~~Increasing \$13K year over year due to increases in operating expenses~~ None.

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Section B — 2010 Regional Entity Budget

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**Other Non-Operating Expenses**

- N/A

- None.

**Fixed Asset Additions**

- N/A

- Texas RE will need to deploy an accounting system and will need to procure the software as well as implement the software. The cost for this is approximately \$41K and is a start-up cost in year one.

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Section B — 2010 Regional Entity Budget

**Section B — 2010 Budget  
2009 Budget and Projection and 2010 Budget Comparisons**

Table 1

Statement of Activities							
2009 Budget & Projection, and 2010 Budget							
STATUTORY							
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	Percent Variance	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)	Percent Variance
<b>Funding</b>							
<b>ERO Funding</b>							
ERO Assessments	\$ 3,430,700	\$ 3,430,700	\$ -	0.0%	\$ 6,660,377	\$ 3,229,677	94.1%
Penalty Sanctions <sup>(1)</sup>	-	-	-	-	-	-	-
<b>Total ERO Funding</b>	<b>\$ 3,430,700</b>	<b>\$ 3,430,700</b>	<b>\$ -</b>	<b>0.0%</b>	<b>\$ 6,660,377</b>	<b>\$ 3,229,677</b>	<b>94.1%</b>
Membership Dues	-	-	-	-	-	-	-
Testing Fees	-	-	-	-	-	-	-
Services & Software	-	-	-	100.0%	-	-	100.0%
Workshops	70,000	174,029	104,029	148.6%	180,000	110,000	157.1%
Interest	-	4,125	4,125	100.0%	2,000	2,000	100.0%
Miscellaneous	-	-	-	-	-	-	-
<b>Total Funding</b>	<b>\$ 3,500,700</b>	<b>\$ 3,608,854</b>	<b>\$ 108,154</b>	<b>3.1%</b>	<b>\$ 6,842,377</b>	<b>\$ 3,341,677</b>	<b>95.5%</b>
<b>Expenses</b>							
<b>Personnel Expenses</b>							
Salaries	\$ 2,496,968	\$ 2,479,855	\$ (17,114)	-0.7%	\$ 3,351,291	\$ 854,322	34.2%
Payroll Taxes	199,757	191,667	(8,090)	-4.1%	265,543	65,785	32.9%
Benefits	259,628	194,403	(65,225)	-25.1%	360,813	101,184	39.0%
Retirement Costs	356,523	329,741	(26,782)	-7.5%	480,075	123,552	34.7%
<b>Total Personnel Expenses</b>	<b>\$ 3,312,876</b>	<b>\$ 3,195,666</b>	<b>\$ (117,210)</b>	<b>-3.5%</b>	<b>\$ 4,457,721</b>	<b>\$ 1,144,844</b>	<b>34.6%</b>
<b>Meeting Expenses</b>							
Meetings	\$ 105,000	\$ 157,394	\$ 52,394	49.9%	\$ 228,000	\$ 123,000	117.1%
Travel	107,470	117,528	10,057	9.4%	194,392	86,922	80.9%
Conference Calls	-	-	-	-	-	-	-
<b>Total Meeting Expenses</b>	<b>\$ 212,470</b>	<b>\$ 274,922</b>	<b>\$ 62,452</b>	<b>29.4%</b>	<b>\$ 422,392</b>	<b>\$ 209,922</b>	<b>98.8%</b>
<b>Operating Expenses</b>							
Consultants & Contracts	\$ 490,986	\$ 539,074	\$ 48,088	9.8%	\$ 676,331	\$ 185,345	37.7%
Office Rent	517,550	287,392	(230,158)	-44.5%	327,600	(189,950)	-36.7%
Office Costs	18,280	26,581	8,301	45.4%	44,022	25,742	140.8%
Professional Services	428,000	563,134	137,134	32.2%	634,625	208,625	49.0%
Miscellaneous	11,160	13,943	2,783	24.9%	36,236	25,076	224.7%
Depreciation	76,540	76,540	-	0.0%	153,107	76,567	100.0%
<b>Total Operating Expenses</b>	<b>\$ 1,540,516</b>	<b>\$ 1,506,664</b>	<b>\$ (33,852)</b>	<b>-2.2%</b>	<b>\$ 1,871,921</b>	<b>\$ 331,405</b>	<b>21.5%</b>
<b>Total Direct Expenses</b>	<b>\$ 5,065,864</b>	<b>\$ 4,977,252</b>	<b>\$ (88,612)</b>	<b>-1.7%</b>	<b>\$ 6,752,034</b>	<b>\$ 1,686,170</b>	<b>33.3%</b>
<b>Indirect Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>0.0%</b>	<b>\$ -</b>	<b>\$ -</b>	<b>0.0%</b>
<b>Other Non-Operating Expenses</b>	<b>\$ 855,000</b>	<b>\$ -</b>	<b>\$ (855,000)</b>	<b>-100.0%</b>	<b>\$ -</b>	<b>\$ (855,000)</b>	<b>-100.0%</b>
<b>Total Expenses</b>	<b>\$ 5,920,864</b>	<b>\$ 4,977,252</b>	<b>\$ (943,612)</b>	<b>-15.9%</b>	<b>\$ 6,752,034</b>	<b>\$ 831,170</b>	<b>14.0%</b>
<b>Change in Assets</b>	<b>\$ (2,420,163)</b>	<b>\$ (1,368,397)</b>	<b>\$ 1,051,766</b>	<b>-43.5%</b>	<b>\$ 90,343</b>	<b>\$ 2,510,506</b>	<b>-103.7%</b>
<b>Fixed Assets</b>							
Depreciation	\$ (76,540)	\$ (76,540)	\$ -	0.0%	\$ (153,107)	\$ (76,567)	100.0%
Computer & Software CapEx	322,702	354,202	31,500	9.8%	306,500	(16,202)	-5.0%
Furniture & Fixtures CapEx	-	-	-	-	15,215	15,215	-
Equipment CapEx	-	-	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-	-	-
<b>Change in Fixed Assets</b>	<b>\$ (246,162)</b>	<b>\$ (277,662)</b>	<b>\$ (31,500)</b>	<b>12.8%</b>	<b>\$ (168,608)</b>	<b>\$ 77,554</b>	<b>-31.5%</b>
Allocation of Fixed Assets	\$ -	\$ -	\$ -	-	\$ -	\$ -	100.0%
<b>Change in Fixed Assets</b>	<b>\$ (246,162)</b>	<b>\$ (277,662)</b>	<b>\$ (31,500)</b>	<b>12.8%</b>	<b>\$ (168,608)</b>	<b>\$ 77,554</b>	<b>-31.5%</b>
<b>TOTAL CHANGE IN ASSETS</b>	<b>\$ (2,666,325)</b>	<b>\$ (1,646,059)</b>	<b>\$ 1,020,266</b>	<b>-38.3%</b>	<b>\$ (78,264)</b>	<b>\$ 2,588,060</b>	<b>-97.1%</b>

(1) Reflects penalty sanctions collected prior to June 30, 2009.

2010 Texas ~~Regional~~Reliability Entity Business Plan and Budget

Approved by Board of Directors: August 17, 2009

January 18, 2010

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Section B — 2010 Regional Entity Budget

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2010 Texas ~~Regional~~Reliability Entity Business Plan and Budget  
Approved by Board of Directors: ~~August 17, 2009~~  
January 18, 2010

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Section B — 2010 Regional Entity Budget

Statement of Activities						
2010 Approved Budget & 2010 Amended Budget						
STATUTORY + STRUCTURAL SEPARATION BUDGET						
	[1]	[2]	[3]	[4]	[2]+[3]+[4]=[5]	[1]+[5]=[6]
	2010	2010	2010	2010	2010	2010
	Approved	Budget	Budget	Base Budget	Adjustment	Base + Adjustment
	Budget	Start-Up	Recurring	Reductions	to the Approved	to the
		Costs	Costs		Budget	Approved Budget
<b>Funding</b>						
<b>ERO Funding</b>						
ERO Assessments	\$ 6,660,377	\$ 1,308,500	\$ 2,124,004	\$ (948,540)	\$ 2,483,964	\$ 9,144,340
Penalty Sanctions <sup>(1)</sup>	-	-	-	-	-	-
<b>Total ERO Funding</b>	<b>\$ 6,660,377</b>	<b>\$ 1,308,500</b>	<b>\$ 2,124,004</b>	<b>\$ (948,540)</b>	<b>\$ 2,483,964</b>	<b>\$ 9,144,340</b>
Membership Dues	-	-	27,000	-	27,000	27,000
Testing Fees	-	-	-	-	-	-
Services & Software	-	-	-	-	-	-
Workshops	180,000	-	-	-	-	180,000
Interest	2,000	-	-	-	-	2,000
Miscellaneous	-	-	-	-	-	-
<b>Total Funding</b>	<b>\$ 6,842,377</b>	<b>\$ 1,308,500</b>	<b>\$ 2,151,004</b>	<b>\$ (948,540)</b>	<b>\$ 2,510,964</b>	<b>\$ 9,353,340</b>
<b>Expenses</b>						
<b>Personnel Expenses</b>						
Salaries	\$ 3,351,291	\$ -	\$ 490,490	\$ -	\$ 490,490	\$ 3,841,781
Payroll Taxes	265,543	-	37,438	-	37,438	302,981
Benefits	360,813	-	47,960	-	47,960	408,773
Retirement Costs	480,075	-	70,594	-	70,594	550,669
<b>Total Personnel Expenses</b>	<b>\$ 4,457,721</b>	<b>\$ -</b>	<b>\$ 646,482</b>	<b>\$ -</b>	<b>\$ 646,482</b>	<b>\$ 5,104,203</b>
<b>Meeting Expenses</b>						
Meetings	\$ 228,000	\$ -	\$ -	\$ -	\$ -	\$ 228,000
Travel	194,392	-	-	-	-	194,392
Conference Calls	-	-	-	-	-	-
<b>Total Meeting Expenses</b>	<b>\$ 422,392</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 422,392</b>
<b>Operating Expenses</b>						
Consultants & Contracts	\$ 676,331	\$ 200,000	\$ 287,675	\$ (559,523)	\$ (71,848)	\$ 604,483
Office Rent	327,600	-	229,725	(193,425)	36,300	363,900
Office Costs	44,022	-	4,590	-	4,590	48,612
Professional Services	634,625	16,500	597,083	(33,961)	579,622	1,214,246
Miscellaneous	36,236	-	8,606	-	8,606	44,843
Depreciation	153,107	-	146,550	-	146,550	299,657
<b>Total Operating Expenses</b>	<b>\$ 1,871,921</b>	<b>\$ 216,500</b>	<b>\$ 1,274,229</b>	<b>\$ (786,909)</b>	<b>\$ 703,820</b>	<b>\$ 2,575,740</b>
<b>Total Direct Expenses</b>	<b>\$ 6,752,034</b>	<b>\$ 216,500</b>	<b>\$ 1,920,711</b>	<b>\$ (786,909)</b>	<b>\$ 1,350,302</b>	<b>\$ 8,102,336</b>
<b>Indirect Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total Expenses</b>	<b>\$ 6,752,034</b>	<b>\$ 216,500</b>	<b>\$ 1,920,711</b>	<b>\$ (786,909)</b>	<b>\$ 1,350,302</b>	<b>\$ 8,102,336</b>
<b>Change in Assets</b>	<b>\$ 90,343</b>	<b>\$ 1,092,000</b>	<b>\$ 230,293</b>	<b>\$ (161,631)</b>	<b>\$ 1,160,662</b>	<b>\$ 1,251,005</b>
<b>Fixed Assets</b>						
Depreciation	\$ (153,107)	\$ -	\$ (146,550)	\$ -	\$ (146,550)	\$ (299,657)
Computer & Software CapEx	306,500	775,000	-	-	775,000	1,081,500
Furniture & Fixtures CapEx	15,215	317,000	-	-	317,000	332,215
Equipment CapEx	-	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-	-
<b>Change in Fixed Assets</b>	<b>\$ (168,608)</b>	<b>\$ (1,092,000)</b>	<b>\$ 146,550</b>	<b>\$ -</b>	<b>\$ (945,450)</b>	<b>\$ (1,114,058)</b>
Allocation of Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Change in Fixed Assets</b>	<b>\$ (168,608)</b>	<b>\$ (1,092,000)</b>	<b>\$ 146,550</b>	<b>\$ -</b>	<b>\$ (945,450)</b>	<b>\$ (1,114,058)</b>
<b>TOTAL CHANGE IN ASSETS</b>	<b>\$ (78,265)</b>	<b>\$ -</b>	<b>\$ 376,843</b>	<b>\$ (161,631)</b>	<b>\$ 215,212</b>	<b>\$ 136,947</b>

<sup>(1)</sup> Reflects penalty sanctions collected prior to June 30, 2009.

**Personnel Analysis**

FTEs are defined as full-time equivalent units. Fractional FTEs reflect time tracking and expected results of time-tracking.

2010 Texas ~~Regional~~Reliability Entity Business Plan and Budget

Approved by Board of Directors: August 17, 2009

January 18, 2010

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Section B — 2010 Regional Entity Budget

Table 2

Total FTEs by Program Area	Budget 2009	Projection 2009	Direct FTEs 2010 Budget	Shared FTEs <sup>1</sup> 2010 Budget	Total FTEs 2010 Budget	Change from 2009 Budget
<b>STATUTORY</b>						
<b>Operational Programs</b>						
Reliability Standards	1.70	1.84	0.00	2.06	2.06	0.36
Compliance and Organization Registration and Certification	14.15	15.01	0.00	21.74	21.74	7.59
Training and Education	0.60	0.84	0.00	0.97	0.97	0.37
Reliability Assessment and Performance Analysis	2.20	2.15	0.00	2.44	2.44	0.24
Situational Awareness and Infrastructure Security	1.50	1.43	0.00	3.03	3.03	1.53
<b>Total FTEs Operational Programs</b>	<b>20.15</b>	<b>21.27</b>	<b>0.00</b>	<b>30.24</b>	<b>30.24</b>	<b>10.09</b>
<b>Administrative Programs</b>						
General & Administrative	1.70	1.85	0.00	1.05	1.05	-0.65
Information Technology	1.70	1.29	0.00	0.69	0.69	-1.01
Legal and Regulatory	2.55	1.67	0.00	1.17	1.17	-1.38
Accounting	0.85	0.85	0.00	0.85	0.85	0.00
<b>Total FTEs Administrative Programs</b>	<b>6.80</b>	<b>5.66</b>	<b>0.00</b>	<b>3.76</b>	<b>3.76</b>	<b>-3.04</b>
<b>Total FTEs</b>	<b>26.95</b>	<b>26.93</b>	<b>0.00</b>	<b>34.00</b>	<b>34.00</b>	<b>7.05</b>

<sup>1</sup>A shared FTE is defined as only Texas Regional Entity employees who performs both Statutory and Non-statutory activities; however not for a registered function (e.g. Reliability Coordinator).

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

Section B — 2010 Regional Entity Budget

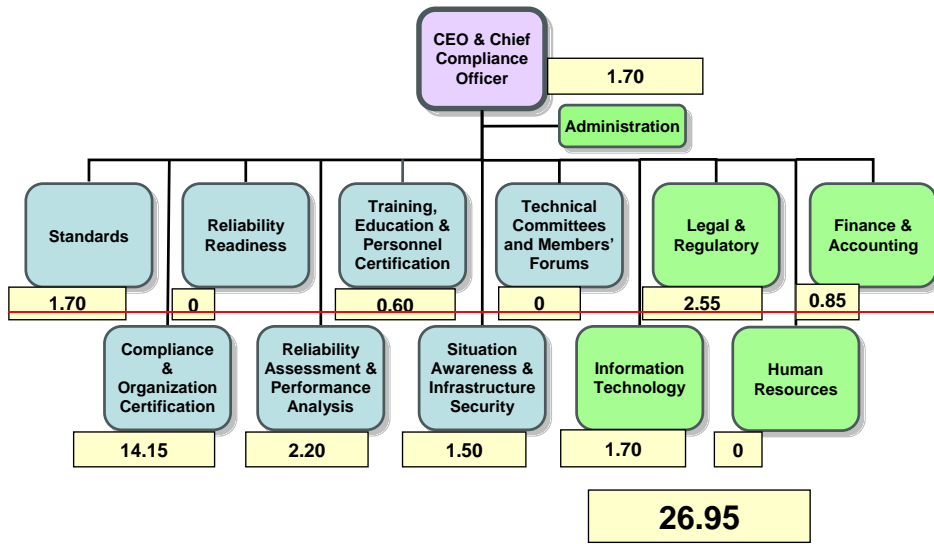
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**2009 Organizational Chart (Statutory)**

**Table 3**

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Section B — 2010 Regional Entity Budget



**Section B — 2010 Regional Entity Budget**

Total FTE's by Program Area	Approved 2010	Direct FTEs 2010 Budget	Shared FTEs <sup>1</sup> 2010 Budget	Total FTEs 2010 Budget	Change From Approved 2010 Budget
<b>STATUTORY</b>					
<b>Operational Programs</b>					
Reliability Standards	2.06	0.00	2.06	2.06	0.00
Compliance and Organization Registration and Certification	21.74	0.00	21.74	21.74	0.00
Training and Education	0.97	0.00	0.97	0.97	0.00
Reliability Assessment and Performance Analysis	2.44	0.00	2.44	2.44	0.00
Situational Awareness and Infrastructure Security	3.03	0.00	3.03	3.03	0.00
<b>Total FTEs Operational Programs</b>	<b>30.24</b>	<b>0.00</b>	<b>30.24</b>	<b>30.24</b>	<b>0.00</b>
<b>Administrative Programs</b>					
Member Forums	0.00	0.00	0.00	0.00	0.00
General & Administrative	1.05	0.00	1.05	1.05	0.00
Information Technology	0.69	0.00	2.49	2.49	1.80
Legal and Regulatory	1.17	0.00	3.17	3.17	2.00
Human Resources	0.00	0.00	0.85	0.85	0.85
Accounting	0.85	0.00	1.70	1.70	0.85
<b>Total FTEs Administrative Programs</b>	<b>3.76</b>	<b>0.00</b>	<b>9.26</b>	<b>9.26</b>	<b>5.50</b>
<b>Total FTEs</b>	<b>34.00</b>	<b>0.00</b>	<b>39.50</b>	<b>39.50</b>	<b>5.50</b>

<sup>1</sup>A shared FTE is defined as only Texas Regional Entity employees who performs both Statutory and Non-statutory activities; however not for a registered function (e.g. Reliability Coordinator).

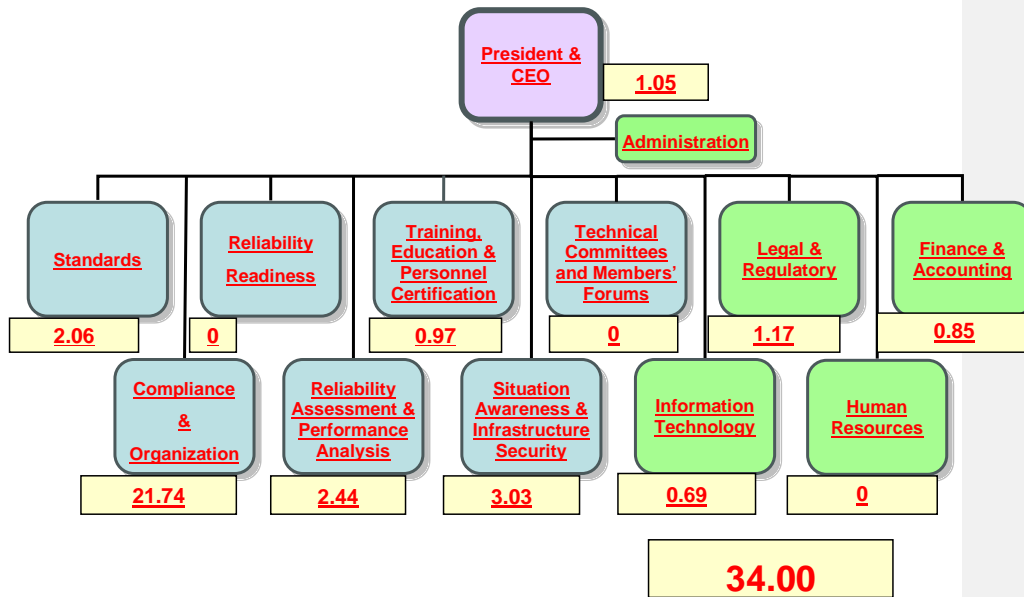
\* NOTE: The FTEs for Administration Departments are reflected as staffed in this exhibit. The salary and related expenses in the statement of activities has been consolidated to ensure salary confidentiality.

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2010 Organizational Chart (Statutory) – Approved 2010 Budget

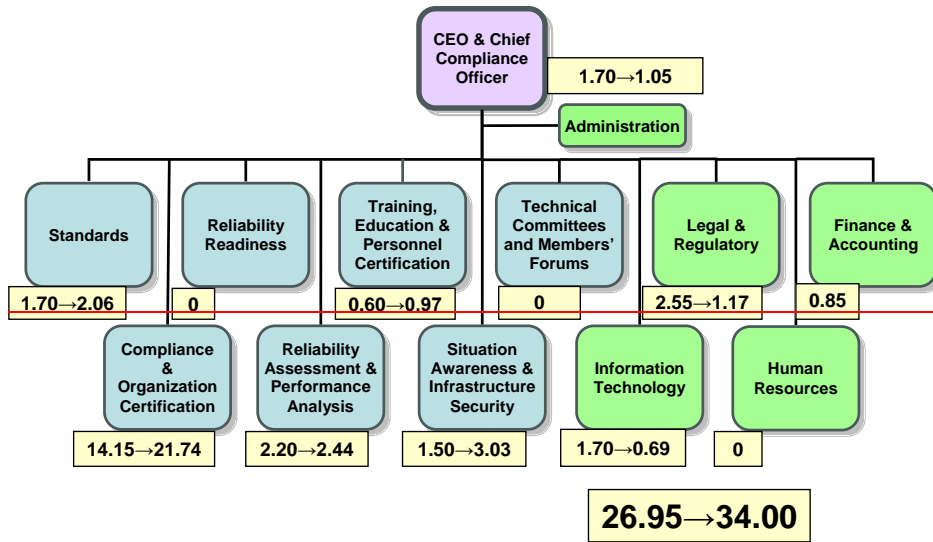
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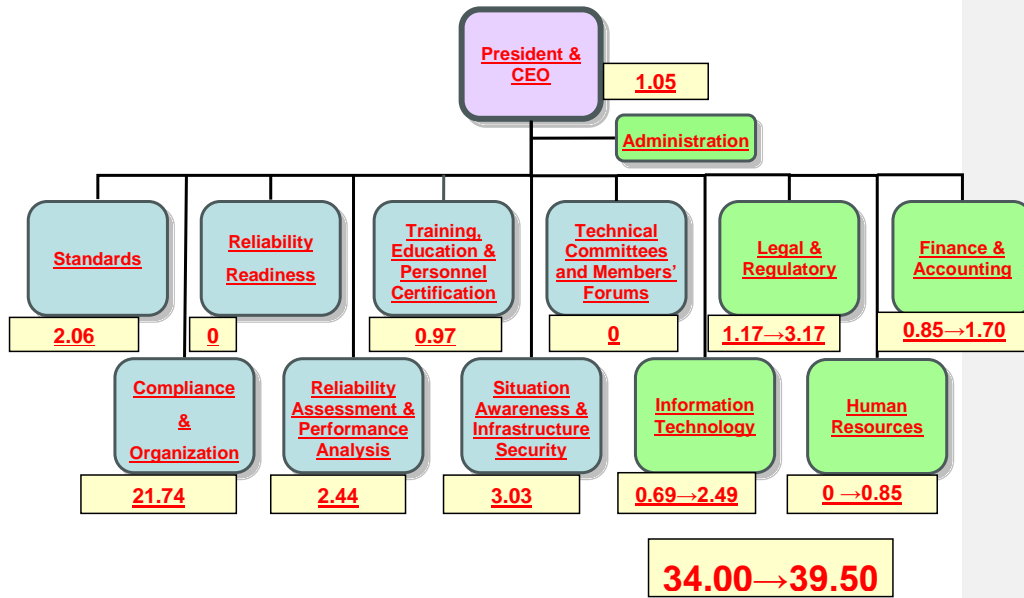




**2010 Organizational Chart (Statutory) – Proposed 2010 Budget versus Approved 2010 Budget**

**Table 4**





**Reserve Balance**

**Table 5**

<b>Working Capital Reserve Analysis 2009-2010</b>	
<b>STATUTORY</b>	
<b>Beginning Working Capital Reserve (Deficit), December 31, 2008</b>	2,666,325
Penalty sanctions being held to be used as offset to 2010 assessments <sup>1</sup>	0
Plus: 2009 ERO Funding (from LSEs or designees)	3,430,700
Plus: 2009 Other funding sources	178,154
Less: 2009 Regulatory Liability Projected	(165,266)
Less: 2009 Projected expenses & capital expenditures	(5,254,914)
<b>Projected Working Capital Reserve (Deficit), December 31, 2009</b>	<b>855,000</b>
<b>Desired Working Capital Reserve, December 31, 2010</b>	<b>1,370,718</b>
Less: Projected Working Capital Reserve, December 31, 2009	(855,000)
Less: LT Regulatory Liability Release	(593,983)
<b>Increase(decrease) in assessments to achieve desired Working Capital Reserve</b>	<b>(78,264)</b>
2010 Assessment for Expenses and Capital Expenditures	6,920,642
Less: Penalty Sanctions <sup>1</sup>	0
Less: Other Funding Sources	(182,000)
Adjustment to achieve desired Working Capital Reserve	(78,264)
<b>2010 Assessment</b>	<b>6,660,377</b>

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

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

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**Working Capital Reserve Analysis 2010**

**STATUTORY**

<b>Beginning Working Capital Reserve (Deficit), December 31, 2008</b>	2,666,325
Penalty sanctions being held to be used as offset to 2010 assessments <sup>1</sup>	0
Plus: 2009 ERO Funding (from LSEs or designees)	3,430,700
Plus: 2009 Other funding sources	178,154
Less: 2009 Regulatory Liability Projected	(165,266)
Less: 2009 Projected expenses & capital expenditures	(5,254,914)
 <b>Projected Working Capital Reserve (Deficit), December 31, 2009</b>	 <b>855,000</b>
 <b>Desired Working Capital Reserve, December 31, 2010</b>	 <b>1,585,929</b>
Less: Projected Working Capital Reserve, December 31, 2009	(855,000)
Less: LT Regulatory Liability Release	(593,983)
 <b>Increase(decrease) in assessments to achieve desired Working Capital Reserve</b>	 <b>136,947</b>
 2010 Assessment for Expenses and Capital Expenditures	 9,216,394
Net Reduction in Working Capital	
Less: Penalty Sanctions <sup>1</sup>	0
Less: Other Funding Sources <sup>2</sup>	(209,000)
Adjustment to achieve desired Working Capital Reserve	136,947
 <b>2010 Assessment</b>	 <b>9,144,340</b>

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

<sup>2</sup> Represents an approximately 75-day cash reserve.

## Regional Entity Assessment Analysis

### Assessments by Country

Table 6

Data Year	Regional Entity	Total NEL	U.S. NEL	Canada NEL	Mexico NEL	% of RE Total	US Total	Canada Total	Mexico Total
Summary by Regional Entity									
2008	FRCC	-							
2008	MRO	-							
2008	NPCC	-							
2008	RFC	-							
2008	SERC	-							
2008	SPP	-							
2008	TRE	310,856,852	310,856,852			100.0%	100.0%		
2008	WECC	-							
TOTAL		310,856,852	310,856,852	-	-	100.0%	100.0%	0%	0%

Data Year	Regional Entity	Total NEL	U.S. NEL	Canada NEL	Mexico NEL	% of RE Total	US Total	Canada Total	Mexico Total
Summary by Regional Entity									
2008	FRCC	-							
2008	MRO	-							
2008	NPCC	-							
2008	RFC	-							
2008	SERC	-							
2008	SPP	-							
2008	TRE	310,856,852	310,856,852			100.0%	100.0%		
2008	WECC	-							
TOTAL		310,856,852	310,856,852	-	-	100.0%	100.0%	0%	0%

2010 Texas Regional Reliability Entity Business Plan and Budget

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January 18, 2010

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### Breakdown by Statement of Activity Sections

Full disclosures of all penalties received prior to July 1, 2009 are detailed below, including the Company, the amount, and the date received.

Allocation Method: Penalty sanctions received have been allocated to the following Statutory programs to reduce assessments: Reliability Standards; Compliance Monitoring & Enforcement and Organization Registration & Certification; Reliability Assessments and Performance Analysis; Training, Education and Operator Certification; and Situational Awareness and Infrastructure Security. Penalty sanctions are allocated based upon the number of FTEs in the Program divided by the aggregate total FTEs in the Programs receiving the allocation.

**Table B-1**

Penalty Sanctions Received Prior to June 30, 2009	Date Receive	Amount Received
Name of Entity		
NOT APPLICABLE		
<b>Total Penalties Received</b>		\$ -

Penalty Sanctions Received Prior to June 30, 2009	Date Receive	Amount Received
Name of Entity		
NOT APPLICABLE		
<b>Total Penalties Received</b>		\$ -

Supplemental Funding

Table B-2

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

Outside Funding Breakdown By Program (excluding ERO Assessments & Penalty Sanctions)	2010 Approved Budget	2010 Proposed Budget	Variance 2010 Approved Budget v 2010 Proposed Budget	Variance %
<b>Training and Education</b>				
Operations Training Seminar	\$ 180,000	\$ 180,000	\$ -	0.00%
<b>Total</b>	<b>\$ 180,000</b>	<b>\$ 180,000</b>	<b>\$ -</b>	<b>0.00%</b>
<b>General and Administrative</b>				
Membership Fees	\$ -	\$ 27,000	\$ 27,000	100.00%
Interest Income	\$ 2,000	\$ 2,000	\$ -	0.00%
<b>Total</b>	<b>\$ 2,000</b>	<b>\$ 29,000</b>	<b>\$ 27,000</b>	<b>1350.00%</b>
<b>Total Outside Funding</b>	<b>\$ 182,000</b>	<b>\$ 209,000</b>	<b>\$ 27,000</b>	<b>14.84%</b>

2010 Texas Regional Reliability Entity Business Plan and Budget  
 Approved by Board of Directors: August 17, 2009  
 January 18, 2010

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**Explanation of Significant Variances – 2010 Proposed Amended Budget versus ~~2009~~2010 Approved Budget**

- ~~The most significant increase is resulting from the change in venue for the Operations Training Seminar to an offsite location. The 2009 budget assumed that Texas RE could use ERCOT ISO facilities for the OTS; however due to space constraints, Texas RE secured an alternate venue in 2009. Texas RE collected increased registration fees to fund the increased Operations Training Seminar expenses. In 2010, the year-over-year budget increase reflects that continuing assumption and the resulting expense increase will be funded by registration fees from attendees. The increase is expected to be \$110K.~~
- ~~There is approximately \$2K of interest income budgeted in 2010. The assumption used to budget the interest income was based on Texas RE's current interest income rate applied to the budgeted cash balance for 2010.~~
- Texas RE members will pay nominal annual membership fee. Original Texas RE did not receive any portion of the ERCOT ISO membership fees.



**Personnel Expenses**

**Table B-3**

Personnel Expenses	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
<b>Salaries</b>					
Salary	\$ 2,496,968	\$ 2,479,855	\$ 3,351,291	\$ 854,322	34.2%
<b>Total Salaries</b>	<b>\$ 2,496,968</b>	<b>\$ 2,479,855</b>	<b>\$ 3,351,291</b>	<b>\$ 854,322</b>	<b>34.2%</b>
<b>Total Payroll Taxes</b>	<b>\$ 199,757</b>	<b>\$ 191,667</b>	<b>\$ 265,543</b>	<b>\$ 65,785</b>	<b>32.9%</b>
<b>Benefits</b>					
Life, Health, Vision, etc.	\$ 259,628	\$ 194,403	\$ 360,813	\$ 101,184	39.0%
<b>Total Benefits</b>	<b>\$ 259,628</b>	<b>\$ 194,403</b>	<b>\$ 360,813</b>	<b>\$ 101,184</b>	<b>39.0%</b>
<b>Retirement</b>					
401(k) Contr. & Employee Matching	\$ 356,523	\$ 329,741	\$ 480,075	\$ 123,552	34.7%
<b>Total Retirement</b>	<b>\$ 356,523</b>	<b>\$ 329,741</b>	<b>\$ 480,075</b>	<b>\$ 123,552</b>	<b>34.7%</b>
<b>Total Personnel Costs</b>	<b>\$ 3,312,878</b>	<b>\$ 3,195,666</b>	<b>\$ 4,457,721</b>	<b>\$ 1,144,844</b>	<b>34.6%</b>
<b>FTEs</b>	26.95	26.93	34.00	7.07	26.2%
<b>Cost per FTE</b>					
Salaries	\$ 92,652	\$ 92,085	\$ 98,561	5,909	6.4%
Payroll Taxes	7,412	7,117	7,810	397	5.4%
Benefits	9,634	7,219	10,611	978	10.1%
Retirement	13,229	12,244	14,119	890	6.7%
<b>Total Cost per FTE</b>	<b>\$ 122,927</b>	<b>\$ 118,666</b>	<b>\$ 131,101</b>	<b>\$ 8,174</b>	<b>6.6%</b>

Section **AB** — 2010 **Business Plan** Regional Entity Budget

Personnel Expenses	2010 Approved Budget	2010 Proposed Budget	Variance 2010 Approved Budget v 2010 Proposed Budget	Variance %
<b>Salaries</b>				
Salary	\$ 3,351,291	\$ 3,841,781	\$ 490,490	14.6%
<b>Total Salaries</b>	<b>\$ 3,351,291</b>	<b>\$ 3,841,781</b>	<b>\$ 490,490</b>	<b>14.6%</b>
<b>Total Payroll Taxes</b>	<b>\$ 265,543</b>	<b>\$ 302,981</b>	<b>\$ 37,438</b>	<b>14.1%</b>
<b>Benefits</b>				
Life, Health, Vision, etc.	\$ 360,813	\$ 408,773	\$ 47,960	13.3%
<b>Total Benefits</b>	<b>\$ 360,813</b>	<b>\$ 408,773</b>	<b>\$ 47,960</b>	<b>13.3%</b>
<b>Retirement</b>				
401(k) Contr. & Employee Matching	\$ 480,075	\$ 550,669	\$ 70,594	14.7%
<b>Total Retirement</b>	<b>\$ 480,075</b>	<b>\$ 550,669</b>	<b>\$ 70,594</b>	<b>14.7%</b>
<b>Total Personnel Costs</b>	<b>\$ 4,457,721</b>	<b>\$ 5,104,203</b>	<b>\$ 646,482</b>	<b>14.5%</b>
<b>FTEs</b>	34.00	39.50	5.50	16.2%
<b>Cost per FTE</b>				
Salaries	\$ 98,561	\$ 97,255	(1,306)	-1.3%
Payroll Taxes	7,810	7,670	(140)	-1.8%
Benefits	10,611	10,348	(263)	-2.5%
Retirement	14,119	13,940	(179)	-1.3%
<b>Total Cost per FTE</b>	<b>\$ 131,101</b>	<b>\$ 129,213</b>	<b>\$ (1,888)</b>	<b>-1.4%</b>

**Explanation of Significant Variances – 2010 Proposed Amended Budget versus ~~2009~~2010 Approved Budget**

- The most significant increase is related to the hiring of 8.0 additional staff (7.05 FTEs Statutory, .95 FTEs Non-statutory) in the compliance, situational awareness and CIP areas. Additionally, there are meritis, promotion and market adjustments budgeted in 2010 for existing Texas RE personnel. The budget assumed 3% merit, 1% promotion and 2% for market adjustments. Finally, with respect to the health insurance benefit, the cost per participant is expected to increase, year-over-year, reason for the 1.4% decrease is that the average salary of the existing professional staff is higher than the additional corporate support staff being hired to perform the administrative services that were performed for Original Texas RE under its MOU with ERCOT ISO.

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2010 Texas Regional Reliability Entity Business Plan and Budget

Approved by Board of Directors: August 17, 2009

January 18, 2010

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Consultants and Contracts

Table B-4

Consultants	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
<b>Consultants</b>					
Recruitment	\$ 6,000	\$ -	\$ -	\$ (6,000)	-100.00%
<b>Consultants Total</b>	<b>\$ 6,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (6,000)</b>	

Contracts	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
<b>Contracts</b>					
Corporate Support Allocation	\$ 280,654	\$ 330,946	\$ 388,205	\$ 107,551	38.32%
IT Services & Other (under professional services in 2009 Forecast & 2010 Budget)	3,932			(3,932)	-100.00%
IT Administration	200,400	208,128	288,126	87,726	43.78%
<b>Contracts Total</b>	<b>\$ 484,986</b>	<b>\$ 539,075</b>	<b>\$ 676,331</b>	<b>\$ 191,345</b>	<b>39.45%</b>
<b>Total Consulting and Contracts</b>	<b>\$ 490,986</b>	<b>\$ 539,075</b>	<b>\$ 676,331</b>	<b>\$ 185,345</b>	<b>37.75%</b>

Consultants	2010 Approved Budget	2010 Proposed Budget	Variance 2010 Approved Budget v 2010 Proposed Budget	Variance %
<b>Consultants</b>				
Recruitment	\$ -	\$ -	\$ -	
<b>Consultants Total</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	

Contracts	Budget 2010	2010 Proposed Budget	Variance 2010 Approved Budget v 2010 Proposed Budget	Variance %
<b>Contracts</b>				
Corporate Support Allocation (MOU)	\$ 388,205	\$ 44,777	\$ (343,428)	-88.47%
Board Related Search & Support Fees	-	487,675	487,675	100.00%
IT Administration (MOU)	288,126	72,032	(216,095)	-75.00%
<b>Contracts Total</b>	<b>\$ 676,331</b>	<b>\$ 604,483</b>	<b>\$ (71,848)</b>	<b>-10.62%</b>
<b>Total Consulting and Contracts</b>	<b>\$ 676,331</b>	<b>\$ 604,483</b>	<b>\$ (71,848)</b>	<b>-10.62%</b>

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**Explanation of Significant Variances – 2010 Proposed Amended Budget versus 2009 Approved Budget**

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- Board related costs are increasing due to the recruitment expenses included for start-up including four independent directors, as well as having overlapping board fees (Original Texas RE and Texas RE) during a portion of year one. The most significant board related increase is related to the corporate offset by reductions in HR support (Memorandum of Understanding) allocation, Finance support, Insurance coverage, and IT administration per provided under the MOU between Texas RE and ERCOT ISO. There is a cost adjustment year over year to reflect increasing prices; however the largest component of the increase is directly attributed to increasing FTEs. The costs associated with the MOU for increases to FTEs are approximately \$148K of the \$185K increase.
- All of the MOU increase reflected in table B-4 above has been offset by the savings for rent and facilities, totaling \$190K reflected under table B-5 below. The net effect of the MOU year over year is a reduction of \$5K is \$72K

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**Table B-5**

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

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

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

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Section **AB** — 2010 ~~Business Plan~~ Regional Entity Budget

**Table B-6**

Office Costs	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Office Supplies	\$ 8,400	\$ 13,333	\$ 16,002	\$ 7,602	90.50%
<del>Cellular Phones</del>	<del>5,080</del>	<del>6,137</del>	<del>14,040</del>	<del>8,960</del>	<del>176.38%</del>
Postage	1,200	1,500	1,800	600	50.00%
Express Shipping	1,200	4,811	7,980	6,780	565.00%
Stationary Forms	1,200	400	3,000	1,800	150.00%
Reports - Graphics	1,200	400	1,200	-	0.00%
<b>Total Office Costs</b>	<b>\$ 18,280</b>	<b>\$ 26,581</b>	<b>\$ 44,022</b>	<b>\$ 25,742</b>	<b>140.82%</b>

Office Rent	2010 Approved Budget	2010 Proposed Budget	Variance 2010 Approved Budget v 2010 Proposed Budget	Variance %
Office Rent & Facilities	\$ 327,600	\$ 261,900	(65,700)	-20.05%
2010 Office Move and Improvements	-	50,000	50,000	100.00%
2010 Office Move Project Management Expense	-	25,000	25,000	100.00%
MRC, Standards, and Board Meeting Room	-	27,000	27,000	100.00%
<b>Total Office Rent</b>	<b>\$ 327,600</b>	<b>\$ 363,900</b>	<b>\$ 36,300</b>	<b>11.08%</b>

Explanation of Significant Variances – 2010 ~~Proposed Amended~~ Budget versus **2009 Budget**

- ~~Texas RE is also projecting a significant increase in office supplies to accommodate new employees and additional materials for Texas RE's deliverables \$4K+ \$4K= \$8K.~~
- ~~Express shipping is expected to be significantly higher in 2010 due to the need to send additional materials via FedEx \$7K. **Approved Budget**~~
- ~~Texas RE is also projecting a significant increase in report printing~~
- ~~Texas RE expects that Office Rent & Facilities support will require be more than the approved budget amount after Texas RE structurally separates, due to the need for Texas RE to acquire additional report printing services \$2K.~~
- ~~Adding cell phones for all audit lead, senior level, managers space and above, resulting in a \$9K increase year-over-year the expiration of the lease at the end of 2010.~~

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**Table B-76**

Professional Services	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Outside Legal	\$ 300,000	\$ 300,000	\$ 300,000	\$ -	0.00%
Accounting & Auditing Fees	36,000	41,976	45,281	9,281	25.78%
<del>IT Professional Services</del>	<del>50,000</del>	<del>152,112</del>	<del>207,344</del>	<del>157,344</del>	<del>314.69%</del>
RSVP Hosting	10,000	10,000	10,000	-	0.00%
Professional Engineering Services	-	23,046	-	-	0.00%
Recruitment for TFE Positions	-	-	12,000	12,000	0.00%
Other Professional Services	30,000	36,000	60,000	30,000	100.00%
<b>Total Services</b>	<b>\$ 426,000</b>	<b>\$ 563,134</b>	<b>\$ 634,625</b>	<b>\$ 208,625</b>	<b>12.70%</b>

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Office Costs	2010 Approved Budget	2010 Proposed Budget	Variance 2010 Approved Budget v 2010 Proposed Budget	Variance %
Office Supplies	\$ 16,002	\$ 16,766	\$ 764	4.77%
Cellular Phones	14,040	14,040	-	0.00%
Postage	1,800	3,713	1,913	106.28%
Express Shipping	7,980	7,980	-	0.00%
Stationary Forms	3,000	4,913	1,913	63.77%
Reports - Graphics	1,200	1,200	-	0.00%
<b>Total Office Costs</b>	<b>\$ 44,022</b>	<b>\$ 48,612</b>	<b>\$ 4,590</b>	<b>10.43%</b>

**Explanation of Significant Variances – 2010 Proposed Amended Budget versus ~~2009~~ 2010 Approved Budget**

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- Texas RE is increasing the amount for office supplies to reflect the additional employees \$1K.
- Additionally, postage costs are estimated to be higher due to additional mailings required related to tax filings, corporate governance, and employee communications. The estimated increase is expected to be approximately \$2K.
- Finally, employee forms needed for HR purposes, financial documents, and check stock will be result in approximately a \$2K increase in office costs for Texas RE.

**Table B-7**

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Section AB — 2010 Business Plan Regional Entity Budget

Professional Services	2010 Approved Budget	2010 Proposed Budget	Variance 2010 Approved Budget v 2010 Proposed Budget	Variance %
Outside Legal	\$ 300,000	\$ 390,000	\$ 90,000	30.00%
Accounting & Auditing Fees	45,281	87,820	42,539	93.95%
Accounting Services Fees	-	46,582	46,582	100.00%
Insurance / Risk Management	-	82,608	82,608	100.00%
IT Professional Services	207,344	388,217	180,873	87.23%
RSVP Hosting	10,000	10,000	-	0.00%
Recruitment	12,000	63,000	51,000	425.00%
Other Professional Services	60,000	60,000	-	0.00%
Benefits Administration	-	70,720	70,720	100.00%
Security	-	15,300	15,300	100.00%
<b>Total Services</b>	<b>\$ 634,625</b>	<b>\$ 1,214,246</b>	<b>\$ 579,621</b>	<b>115.62%</b>

**Explanation of Significant Variances – 2010 Proposed Amended Budget versus 2010 Approved Budget**

- Outside legal expenses are expected to increase \$90K over the approved 2010 budget due to the need to utilize outside counsel in connection with the projected increased number of enforcement or registration disputes. This increased cost is not due to the formation of Texas RE as a separate entity.
- Audit fees are increasing in 2010 by \$94.3K related to the financial statement audit.
- IT professional services are increasing \$157K year-over-year related to web hosting redundancy that will ensure Texas RE's web presence and portal tools remain safe, secure and operational with a full backup hosting solution.
- Texas RE will be provisioning establishing an additional \$30K for professional services under the G&A department. This internal audit function for which an external service provider will be used. Additionally, accounting services expenses for timekeeping, expense reporting, payroll processing are expected to increase by \$47K, because the costs for any technical advice and counsel required by any program within Texas RE on an as-needed basis.
- Finally, there is an increase of \$12K for 2010 these are higher than when provided to support the addition of the TFE program within Original Texas RE through the MOU with ERCOT ISO.
- Insurance/Risk Management is slated to increase approximately \$83K because the costs are higher than when provided to Original Texas RE through the MOU with ERCOT ISO.
- IT professional services are increasing \$181K because these costs are higher than when provided to Original Texas RE through the MOU with ERCOT ISO.
- Texas RE recruitment expenses are expected to increase \$51K in professional services. Recruitment expense was previously included in the Original Texas RE's MOU costs under Consultants and Contracts which reflects a decrease in expense.

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2010 Texas Regional Reliability Entity Business Plan and Budget

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Section AB — 2010 Business Plan Regional Entity Budget

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- Benefits Administration will increase \$71K, because the cost of similar benefits is higher than when provided to Original Texas RE through the MOU with ERCOT ISO. This is as a result of the structural separation of Texas RE from ERCOT ISO.
- Security is being estimated to increase to \$15K, because this cost is higher than when provided to Original Texas RE through the MOU with ERCOT ISO.

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Section **AB** — 2010 ~~Business Plan~~Regional Entity Budget

**Table B-8**

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

Other Non-Operating Expenses	2010 Approved Budget	2010 Proposed Budget	Variance 2010 Approved Budget v 2010 Proposed Budget	Variance %
Cash Reserve	\$ -	\$ -	\$ -	-
<b>Total Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>-</b>

**Explanation of Significant Variances – 2010 Proposed Amended Budget versus ~~2009~~2010 Approved Budget**

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

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

(in whole dollars)			
Increase (Decrease)	<del>2009</del> 2010 <u>Approved</u> Budget	<del>2009</del> 2010 <u>Amended</u> Budget	
Total FTEs	<del>5.056</del> 6.0050	<del>6.0050</del> 6.0050	<del>-0.950</del> -0.950
Total Direct Expenses	<del>\$874,997</del> \$1,086,772	<del>\$1,086,772</del> \$1,112,132	<del>\$244,775</del> \$25,360
Total Indirect Expenses			
Total Expenses	<del>\$874,997</del> \$1,086,772	<del>\$1,453,772</del> \$1,112,132	<del>\$284,775</del> \$25,360

**Non-statutory Functional Scope**

In addition to the Statutory functions, Texas RE ~~also provides~~ will provide compliance support to the Public Utility Commission of Texas (PUCT) ~~through December 31, 2010.~~ These services include auditing, event analysis, complaint investigations and monthly metric monitoring to identify violations of protocols. In addition, Texas RE also monitors the stakeholder market rules creation and modification process and comments on proposed changes to the protocols that affect reliability. Texas RE also works closely with the PUCT to identify new risks to the BPS and craft strategies to address these risks from the regulatory perspective.

Texas RE does not perform any enforcement activities for the PUCT. Once a potential violation is identified by Texas RE it is reported to the PUCT ~~and they follow,~~ which follows up with all enforcement activities. Texas RE may be required to assist the PUCT with analysis of our findings and will support the PUCT in ~~their~~ the enforcement processes, if needed; however, all enforcement is at the sole discretion of the PUCT.

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

~~Texas RE added one FTE to support the Non-statutory work in 2009. It is anticipated that the work related to the transition to the Nodal market will be higher in 2010 by approximately 1 FTE. Texas RE estimates approximately (15) Original Texas RE added one-half of an FTE (0.5 FTEs) in its 2010 Approved Budget to support the Non-statutory corporate support work in 2010.~~

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**Section B — 2010 Regional Entity Budget C — Non-Statutory**

Texas RE estimates approximately (14%) percent of Texas RE staff time will be dedicated to monitoring, auditing, assessing, investigating, and reporting on compliance with the ERCOT Protocols and commenting on ERCOT Protocol revision requests. Funding for these Non-statutory activities is provided through the ERCOT System Administration Fee, which is based upon the fee factor approved by the ERCOT Board and the PUCT to support ERCOT activities and Texas RE Non-statutory activities which are subject to PUCT oversight.

Texas RE generated its budget to include the Non-statutory related work of the PUCT in its 2010 Amended Budget. However, the Non-statutory work performed by Texas RE may potentially transition to another entity selected by the PUCT effective December 31, 2010.

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**Major 2010 Assumptions and Cost Impacts – Proposed 2010 Amended Budget versus Approved 2010 Budget**

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**Funding Sources**

- Funding ~~is will be~~ received ~~only~~ through a contract with the PUCT or a three-way contract with the PUCT and ERCOT ISO to pay for these expenses.
- ~~Texas RE will prepare for the Nodal market conversion.~~

**Personnel Expenses**

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- Non-statutory Personnel expenses-Expenses are increasing primarily due to adding .9550 FTEs of labor to the Non-statutory function. ~~Additionally, the budget assumes 3% merit, 1% promotion and 2% for market adjustments structural separation. This results in a \$70K increase to expenses (which is offset by the \$45K reduction in operating expenses), resulting in a change of a \$25K increase.~~

**Meeting Expenses**

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

**Operating Expenses**

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- ~~Texas RE is estimating an increase in the MOU related Support service expenses incurred for support consulting, and other professional services and IT administration of \$84K for 2010. This is based primarily on the increased FTEs and the associated expenses.~~
- ~~Rent and facilities services expenses are expected related to decrease \$56K for 2010 Texas RE's new corporate structure will require \$45K less expense, due to a lower rentable square foot rate we obtained in 2009 for rent and facilities.~~
- ~~Professional services are being budgeted the elimination of the MOU expenses paid to decrease \$32K.~~

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2010 Texas ~~Regional~~Reliability Entity Business Plan and Budget

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Section B — 2010 Regional Entity Budget C — Non-Statutory

- Finally, depreciation is being budgeted in 2010 ERCOT and a reduction to reflect the depreciable assets that are held by Texas RE (software) outside legal expenses.

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**2010 Primary Goals and Objectives —**

1. Implement the 2010 protocol audit plan per the posted schedule and with a high level of quality and consistency.
2. Maintain high quality and effective organization of all audit and investigation work papers, audit reports and potential violation findings.
3. Review and assess system disturbances for potential violations of the ERCOT Protocols and report all findings to the PUCT.
4. Meet with the PUCT monthly to provide a complete report on work in progress as well as all audit reports and potential violation files.
5. Support the PUCT efforts to ensure adequate regulatory oversight in place for the Nodal Market.
6. Create and provide Nodal training for Texas RE staff and the PUCT.
7. Provide a workshop to educate stakeholders on compliance issues related to the Nodal Market transition and implementation. Continue to monitor and participate in the ERCOT ISO committee process.

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2009

**2010 Approved Budget and Projection and 2010 Proposed Amended Budget Comparisons**

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Table 1

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Section B — 2010 Regional Entity Budget C — Non-Statutory

Statement of Activities 2009 Budget & Projection, and 2010 Budget						
NON-STATUTORY						
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	Percent Variance	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
<b>Funding</b>						
<b>ERO Funding</b>						
ERO Assessments	\$ -	\$ -	\$ -		\$ -	\$ -
Penalty Sanctions <sup>(1)</sup>	-	-	-		-	-
<b>Total ERO Funding</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		<b>\$ -</b>	<b>\$ -</b>
Membership Dues	-	-	-		-	-
Testing Fees	-	-	-		-	-
Services & Software	871,997	788,005	(83,993)	-9.6%	1,153,772	281,775
Workshops	-	-	-		-	-
Interest	-	-	-		-	-
Miscellaneous	-	-	-		-	-
<b>Total Funding</b>	<b>\$ 871,997</b>	<b>\$ 788,005</b>	<b>\$ (83,993)</b>	<b>-9.6%</b>	<b>\$ 1,153,772</b>	<b>\$ 281,775</b>
<b>Expenses</b>						
<b>Personnel Expenses</b>						
Salaries	\$ 448,080	\$ 430,398	\$ (17,682)	-3.9%	\$ 608,104	\$ 160,025
Payroll Taxes	35,846	33,612	(2,234)	-6.2%	48,059	12,212
Benefits	45,942	37,197	(8,745)	-19.0%	66,079	20,137
Retirement Costs	64,972	59,284	(5,687)	-8.8%	86,102	21,131
<b>Total Personnel Expenses</b>	<b>\$ 594,840</b>	<b>\$ 560,492</b>	<b>\$ (34,348)</b>	<b>-5.8%</b>	<b>\$ 808,345</b>	<b>\$ 213,505</b>
<b>Meeting Expenses</b>						
Meetings	\$ -	\$ -	\$ -		\$ 5,600	\$ 5,600
Travel	2,181	4,500	2,319	106.3%	624	(1,557)
Conference Calls	-	-	-		-	-
<b>Total Meeting Expenses</b>	<b>\$ 2,181</b>	<b>\$ 4,500</b>	<b>\$ 2,319</b>	<b>106.3%</b>	<b>\$ 6,224</b>	<b>\$ 4,043</b>
<b>Operating Expenses</b>						
Consultants & Contracts	\$ 36,396	\$ 97,700	\$ 61,303	168.4%	\$ 120,064	\$ 83,667
Office Rent	118,200	52,972	(65,228)	-55.2%	62,400	(55,800)
Office Costs	480	594	114	23.8%	-	(480)
Professional Services	89,900	71,487	(18,403)	-20.5%	57,875	(32,025)
Miscellaneous	-	250	250	100.0%	1,865	1,865
Depreciation	-	29,706	29,706	100.0%	30,000	30,000
<b>Total Operating Expenses</b>	<b>\$ 244,976</b>	<b>\$ 252,720</b>	<b>\$ 7,743</b>	<b>3.2%</b>	<b>\$ 272,203</b>	<b>\$ 27,227</b>
<b>Total Direct Expenses</b>	<b>\$ 841,997</b>	<b>\$ 817,711</b>	<b>\$ (24,286)</b>	<b>-2.9%</b>	<b>\$ 1,086,772</b>	<b>\$ 244,775</b>
<b>Indirect Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		<b>\$ -</b>	<b>\$ -</b>
<b>Other Non-Operating Expenses</b>	<b>\$ 30,000</b>	<b>\$ -</b>	<b>\$ (30,000)</b>	<b>-100.0%</b>	<b>\$ -</b>	<b>\$ (30,000)</b>
<b>Total Expenses</b>	<b>\$ 871,997</b>	<b>\$ 817,711</b>	<b>\$ (54,286)</b>	<b>-6.2%</b>	<b>\$ 1,086,772</b>	<b>\$ 214,775</b>
<b>Change in Assets</b>	<b>\$ -</b>	<b>\$ (29,706)</b>	<b>\$ (29,706)</b>	<b>100.0%</b>	<b>\$ 67,000</b>	<b>\$ 67,000</b>
<b>Fixed Assets</b>						
Depreciation	\$ -	\$ (29,706)	\$ (29,706)	0.0%	\$ (30,000)	\$ (30,000)
Computer & Software CapEx	-	-	-		67,000	67,000
Furniture & Fixtures CapEx	-	-	-		-	-
Equipment CapEx	-	-	-		-	-
Leasehold Improvements	-	-	-		-	-
<b>Change in Fixed Assets</b>	<b>\$ -</b>	<b>\$ 29,706</b>	<b>\$ 29,706</b>	<b>100.0%</b>	<b>\$ (37,000)</b>	<b>\$ (37,000)</b>
Allocation of Fixed Assets	\$ -	\$ -	\$ -		\$ -	\$ -
<b>Change in Fixed Assets</b>	<b>\$ -</b>	<b>\$ 29,706</b>	<b>\$ 29,706</b>	<b>100.0%</b>	<b>\$ (37,000)</b>	<b>\$ (37,000)</b>
<b>TOTAL CHANGE IN ASSETS</b>	<b>\$ -</b>	<b>\$ (0)</b>	<b>\$ (0)</b>	<b>0.0%</b>	<b>\$ 30,000</b>	<b>\$ 30,000</b>

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Section B — 2010 Regional Entity BudgetC — Non-Statutory

Statement of Activities						
2010 Approved Budget & 2010 Amended Budget						
NON-STATUTORY + STRUCTURAL SEPARATION BUDGET						
	[1]	[2]	[3]	[4]	[2]+[3]+[4]=[5]	[1]+[5]=[6]
	2010	2010	2010	2010	2010	2010
	Approved	Budget	Budget	Base Budget	Adjustment	Base + Adjustment
	Budget	Start-Up	Recurring	Reductions	to the Approved	to the
		Costs	Costs		Budget	Approved Budget
<b>Funding</b>						
<b>ERO Funding</b>						
ERO Assessments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Penalty Sanctions <sup>(1)</sup>	-	-	-	-	-	-
<b>Total ERO Funding</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Membership Dues	-	-	-	-	-	-
Testing Fees	-	-	-	-	-	-
Services & Software	1,153,772	-	195,064	(164,956)	30,108	1,183,879
Workshops	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-
<b>Total Funding</b>	<b>\$ 1,153,772</b>	<b>\$ -</b>	<b>\$ 195,064</b>	<b>\$ (164,956)</b>	<b>\$ 30,108</b>	<b>\$ 1,183,879</b>
<b>Expenses</b>						
<b>Personnel Expenses</b>						
Salaries	\$ 608,104	\$ -	\$ 48,510	\$ -	\$ 48,510	\$ 656,614
Payroll Taxes	48,059	-	5,123	-	5,123	53,181
Benefits	66,079	-	7,044	-	7,044	73,123
Retirement Costs	86,102	-	9,178	-	9,178	95,280
<b>Total Personnel Expenses</b>	<b>\$ 808,345</b>	<b>\$ -</b>	<b>\$ 69,854</b>	<b>\$ -</b>	<b>\$ 69,854</b>	<b>\$ 878,199</b>
<b>Meeting Expenses</b>						
Meetings	\$ 5,600	\$ -	\$ -	\$ -	\$ -	\$ 5,600
Travel	624	-	-	-	-	624
Conference Calls	-	-	-	-	-	-
<b>Total Meeting Expenses</b>	<b>\$ 6,224</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 6,224</b>
<b>Operating Expenses</b>						
Consultants & Contracts	\$ 120,064	\$ -	\$ 21,677	\$ (99,273)	\$ (77,596)	\$ 42,467
Office Rent	62,400	-	40,540	(37,575)	2,965	65,365
Office Costs	-	-	810	-	810	810
Professional Services	57,875	-	27,809	-	27,809	85,684
Miscellaneous	1,865	-	1,519	-	1,519	3,383
Depreciation	30,000	-	-	-	-	30,000
<b>Total Operating Expenses</b>	<b>\$ 272,203</b>	<b>\$ -</b>	<b>\$ 92,354</b>	<b>\$ (136,848)</b>	<b>\$ (44,494)</b>	<b>\$ 227,709</b>
<b>Total Direct Expenses</b>	<b>\$ 1,086,772</b>	<b>\$ -</b>	<b>\$ 162,208</b>	<b>\$ (136,848)</b>	<b>\$ 25,360</b>	<b>\$ 1,112,132</b>
<b>Indirect Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total Expenses</b>	<b>\$ 1,086,772</b>	<b>\$ -</b>	<b>\$ 162,208</b>	<b>\$ (136,848)</b>	<b>\$ 25,360</b>	<b>\$ 1,112,132</b>
<b>Change in Assets</b>	<b>\$ 67,000</b>	<b>\$ -</b>	<b>\$ 32,856</b>	<b>\$ (28,109)</b>	<b>\$ 4,748</b>	<b>\$ 71,748</b>
<b>Fixed Assets</b>						
Depreciation	\$ (30,000)	\$ -	\$ -	\$ -	\$ -	\$ (30,000)
Computer & Software CapEx	67,000	-	-	-	-	67,000
Furniture & Fixtures CapEx	-	-	-	-	-	-
Equipment CapEx	-	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-	-
<b>Change in Fixed Assets</b>	<b>\$ (37,000)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (37,000)</b>
Allocation of Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Change in Fixed Assets</b>	<b>\$ (37,000)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (37,000)</b>
<b>TOTAL CHANGE IN ASSETS</b>	<b>\$ 30,000</b>	<b>\$ -</b>	<b>\$ 32,856</b>	<b>\$ (28,109)</b>	<b>\$ 4,748</b>	<b>\$ 34,748</b>

<sup>(1)</sup> Reflects penalty sanctions collected prior to June 30, 2009.

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Section C — Non-Statutory

**Personnel Analysis**

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

**Table 2**

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

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

Total FTE's by Program Area	Approved 2010	Direct FTEs 2010 Budget	Shared FTEs <sup>1</sup> 2010 Budget	Total FTEs 2010 Budget	Change From Approved 2010 Budget
<b>NON-STATUTORY</b>					
<b>Operational Programs</b>					
Protocol	5.04	0.00	5.04	5.04	0.00
<b>Total FTEs Operational Programs</b>	<b>5.04</b>	<b>0.00</b>	<b>5.04</b>	<b>5.04</b>	<b>0.00</b>
<b>Administrative Programs</b>					
General & Administrative	0.96	0.00	1.46	1.46	0.50
<b>Total FTEs Administrative Programs</b>	<b>0.96</b>	<b>0.00</b>	<b>1.46</b>	<b>1.46</b>	<b>0.50</b>
<b>Total FTEs</b>	<b>6.00</b>	<b>0.00</b>	<b>6.50</b>	<b>6.50</b>	<b>0.50</b>

<sup>1</sup>A shared FTE is defined as only Texas Regional Entity employees who performs both Statutory and Non-statutory activities; however not for a registered function (e.g. Reliability Coordinator).

2010 Texas ~~Regional~~Reliability Entity Business Plan and Budget

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Section C — Non-Statutory

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2010 Texas ~~Regional~~Reliability Entity Business Plan and Budget  
Approved by Board of Directors: ~~August 17, 2009~~  
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## Section D

### 2010 Consolidated Statement of Activities by Program, Statutory and Non-statutory

#### Statement of Financial Position

As of December 31, 2008, unaudited

As of December 31, 2009, projected

As of December 31, 2010, as budgeted

Section D — Other Exhibits

Statement of Financial Position			
2008 Audited, 2009 Projection, and 2010 Budget			
STATUTORY and NON-STATUTORY			
	In-Balance	In-Balance	Out-Of-Balance
	Unaudited 31-Dec-08	Projected 31-Dec-09	Budget 31-Dec-10
<b>ASSETS</b>			
Cash	3,959,463	1,714,097	1,665,832
Trade Accounts receivable, net of allowance for uncollectible accounts of \$137,600	-	-	-
Other Receivables	270,609	-	-
Prepaid expenses and other current assets	-	-	-
Security deposit	-	-	-
Cash value of insurance policies	-	-	-
Property and equipment	297,195	545,150	750,758
Total Assets	<b>4,527,267</b>	<b>2,259,247</b>	<b>2,416,591</b>
<b>LIABILITIES AND NET ASSETS</b>			
<b>Liabilities</b>			
Accounts payable and accrued expenses	265,115	265,115	265,115
Regulatory Liability	3,095,041	593,983	-
Other Liabilities	869,916	-	-
Deferred compensation	-	-	-
Accrued retirement liabilities	-	-	-
Total Liabilities	<b>4,230,072</b>	<b>859,097</b>	<b>265,115</b>
Net Assets - unrestricted	297,195	1,400,150	2,151,476
Total Liabilities and Net Assets	<b>4,527,267</b>	<b>2,259,247</b>	<b>2,416,591</b>

2010 Texas ~~Regional~~Reliability Entity Business Plan and Budget  
 Approved by Board of Directors: ~~August 17, 2009~~  
 January 18, 2010

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Section D — Other Exhibits

Statement of Financial Position			
2008 Audited, 2009 Projection, and 2010 Budget			
STATUTORY and NON-STATUTORY			
	In-Balance	In-Balance	In-Balance
	Unaudited 31-Dec-08	Projected 31-Dec-09	Budget 31-Dec-10
<b>ASSETS</b>			
Cash	3,959,463	1,714,097	1,929,309
Trade Accounts receivable, net of allowance for uncollectible accounts of \$137,600	-	-	-
Other Receivables	270,609	-	-
Prepaid expenses and other current assets	-	-	-
Security deposit	-	-	-
Cash value of insurance policies	-	-	-
Property and equipment	297,195	545,150	1,696,208
Total Assets	4,527,267	2,259,247	3,625,518
<b>LIABILITIES AND NET ASSETS</b>			
<b>Liabilities</b>			
Accounts payable and accrued expenses	265,115	265,115	265,115
Regulatory Liability	3,095,041	593,983	-
Other Liabilities	869,916	-	-
Deferred compensation	-	-	-
Accrued retirement liabilities	-	-	-
Total Liabilities	4,230,072	859,097	265,115
Net Assets - unrestricted	297,195	1,400,150	3,360,403
Total Liabilities and Net Assets	4,527,267	2,259,247	3,625,518

2010 Texas ~~Regional~~Reliability Entity Business Plan and Budget  
 Approved by Board of Directors: August 17, 2009  
 January 18, 2010

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**Section C — Non-Statutory**

**Texas Regional Entity 2010 Budget**

Statement of Activities 2010 Budget	Total	Statutory Total	Non-Statutory Total	Functions in Delegation Agreement											Non-Statutory Total		
				Statutory Total	Reliability Standards (Section 300)	Compliance and Organization Registration and Certification (Section 400 & 500)	Reliability Assessment and Performance Analysis (Section 800)	Training and Education (Section 900)	Situational Awareness and Infrastructure Security (Section 1000)	Committee and Member Forums	General and Administrative	Legal and Regulatory	Information Technology	Human Resources		Accounting and Finance	
<b>Funding</b>																	
<b>ERO Funding</b>																	
ERO Assessments	9,144,340	9,144,340	-	9,144,340	561,400	6,746,229	630,416	284,526	813,822	-	(6,343)	18,486	37,151	25,001	33,652	-	-
Penalty Sanctions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total ERO Funding</b>	<b>9,144,340</b>	<b>9,144,340</b>	<b>-</b>	<b>9,144,340</b>	<b>561,400</b>	<b>6,746,229</b>	<b>630,416</b>	<b>284,526</b>	<b>813,822</b>	<b>-</b>	<b>(6,343)</b>	<b>18,486</b>	<b>37,151</b>	<b>25,001</b>	<b>33,652</b>	<b>-</b>	<b>-</b>
Membership Dues	27,000	27,000	-	27,000	-	-	-	-	-	-	27,000	-	-	-	-	-	-
Testing Fees	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Services & Software	1,183,879	-	1,183,879	-	-	-	-	-	-	-	-	-	-	-	-	-	1,183,879
Workshops	180,000	180,000	-	180,000	-	-	-	180,000	-	-	-	-	-	-	-	-	-
Interest	2,000	2,000	-	2,000	-	-	-	-	-	-	2,000	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Funding</b>	<b>10,537,219</b>	<b>9,353,340</b>	<b>1,183,879</b>	<b>9,353,340</b>	<b>561,400</b>	<b>6,746,229</b>	<b>630,416</b>	<b>464,526</b>	<b>813,822</b>	<b>-</b>	<b>22,657</b>	<b>18,486</b>	<b>37,151</b>	<b>25,001</b>	<b>33,652</b>	<b>1,183,879</b>	<b>-</b>
<b>Expenses</b>																	
<b>Personnel Expenses</b>																	
Salaries	4,498,395	3,841,781	656,614	3,841,781	184,729	2,037,418	217,004	81,122	291,164	-	1,030,345	-	-	-	-	-	656,614
Payroll Taxes	356,162	302,961	53,181	302,961	14,901	161,372	17,167	6,425	23,060	-	80,036	-	-	-	-	-	53,181
Benefits	481,896	408,773	73,123	408,773	20,489	221,580	23,632	8,334	31,708	-	102,630	-	-	-	-	-	73,123
Retirement Costs	645,043	550,669	95,280	550,669	26,697	289,434	30,793	11,511	41,316	-	150,918	-	-	-	-	-	95,280
<b>Total Personnel Expenses</b>	<b>5,982,402</b>	<b>5,104,203</b>	<b>878,199</b>	<b>5,104,203</b>	<b>246,816</b>	<b>2,709,803</b>	<b>288,615</b>	<b>107,893</b>	<b>387,247</b>	<b>-</b>	<b>1,363,829</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>878,199</b>
<b>Meeting Expenses</b>																	
Meetings	233,600	228,000	5,600	228,000	400	4,000	-	220,000	-	-	3,600	-	-	-	-	-	5,600
Travel	195,016	194,392	624	194,392	6,824	154,664	806	-	4,260	-	17,158	4,478	4,057	-	2,145	-	624
Conference Calls	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Meeting Expenses</b>	<b>428,616</b>	<b>422,392</b>	<b>6,224</b>	<b>422,392</b>	<b>7,224</b>	<b>158,664</b>	<b>806</b>	<b>220,000</b>	<b>4,260</b>	<b>-</b>	<b>20,758</b>	<b>4,478</b>	<b>4,057</b>	<b>-</b>	<b>2,145</b>	<b>-</b>	<b>6,224</b>
<b>Operating Expenses</b>																	
Consultants & Contracts	686,950	604,483	82,467	604,483	-	-	-	-	-	-	604,483	-	-	-	-	-	82,467
Office Rent	424,500	363,900	60,600	363,900	-	-	-	-	-	-	363,900	-	-	-	-	-	60,600
Office Costs	49,422	48,612	810	48,612	480	12,062	-	-	-	-	28,830	5,400	960	-	880	-	810
Professional Services	1,259,930	1,214,246	45,684	1,214,246	18,824	428,660	-	-	-	-	75,300	138,000	214,733	121,720	217,010	-	45,684
Miscellaneous	52,991	44,843	8,148	44,843	615	15,561	673	842	400	-	1,350	6,200	6,500	-	12,701	-	8,148
Depreciation	329,657	299,657	30,000	299,657	-	141,107	-	-	-	-	146,550	-	12,000	-	30,000	-	30,000
<b>Total Operating Expenses</b>	<b>2,803,448</b>	<b>2,575,740</b>	<b>227,709</b>	<b>2,575,740</b>	<b>19,919</b>	<b>597,389</b>	<b>673</b>	<b>842</b>	<b>400</b>	<b>-</b>	<b>1,220,413</b>	<b>149,600</b>	<b>234,193</b>	<b>121,720</b>	<b>230,591</b>	<b>-</b>	<b>227,709</b>
<b>Total Direct Expenses</b>	<b>9,214,467</b>	<b>8,102,335</b>	<b>1,112,132</b>	<b>8,102,335</b>	<b>273,959</b>	<b>3,465,857</b>	<b>290,095</b>	<b>328,735</b>	<b>391,907</b>	<b>-</b>	<b>2,605,000</b>	<b>154,078</b>	<b>238,250</b>	<b>121,720</b>	<b>232,736</b>	<b>-</b>	<b>1,112,132</b>
<b>Indirect Expenses</b>																	
	-	-	-	-	228,439	2,409,652	270,464	107,918	335,309	-	(2,605,000)	(154,078)	(238,250)	(121,720)	(232,736)	-	-
<b>Other Non-Operating Expenses</b>																	
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Expenses</b>	<b>9,214,467</b>	<b>8,102,335</b>	<b>1,112,132</b>	<b>8,102,335</b>	<b>502,398</b>	<b>5,875,509</b>	<b>560,559</b>	<b>436,653</b>	<b>727,217</b>	<b>-</b>	<b>(0)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,112,132</b>
<b>Change in Assets</b>																	
	1,322,752	1,251,005	71,748	1,251,005	59,002	870,720	69,857	27,874	86,605	-	22,657	18,486	37,151	25,001	33,652	-	71,748
<b>Fixed Assets</b>																	
Depreciation	(329,657)	(299,657)	(30,000)	(299,657)	-	(141,107)	-	-	-	-	(146,550)	-	(12,000)	-	-	-	(30,000)
Computer & Software CapEx	1,148,500	1,081,500	67,000	1,081,500	-	374,237	-	-	-	-	-	-	666,263	-	41,000	-	67,000
Furniture & Fixtures CapEx	332,215	332,215	-	332,215	-	15,215	-	-	0	-	317,000	-	-	-	-	-	-
Equipment CapEx	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>(Increase) / Decrease in Fixed Assets</b>	<b>(1,151,058)</b>	<b>(1,114,058)</b>	<b>(37,000)</b>	<b>(1,114,058)</b>	<b>-</b>	<b>(248,345)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(170,450)</b>	<b>-</b>	<b>(654,263)</b>	<b>-</b>	<b>(41,000)</b>	<b>-</b>	<b>(37,000)</b>
Allocation of Fixed Assets	-	-	-	-	(59,002)	(622,375)	(69,857)	(27,874)	(86,605)	-	170,450	-	654,263	-	41,000	-	-
<b>Change in Fixed Assets</b>	<b>(1,151,058)</b>	<b>(1,114,058)</b>	<b>(37,000)</b>	<b>(1,114,058)</b>	<b>(59,002)</b>	<b>(870,720)</b>	<b>(69,857)</b>	<b>(27,874)</b>	<b>(86,605)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(37,000)</b>
<b>TOTAL CHANGE IN ASSETS</b>	<b>171,694</b>	<b>136,947</b>	<b>34,748</b>	<b>136,947</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>22,657</b>	<b>18,486</b>	<b>37,151</b>	<b>25,001</b>	<b>33,652</b>	<b>-</b>	<b>34,748</b>
	(0)	(0)	(0)	(0)	-	-	-	-	-	-	-	-	-	-	-	-	-
FTE's	46.00	39.50	6.50	39.50	2.06	21.74	2.44	0.97	3.03	-	1.05	3.17	2.49	0.85	1.70	-	6.50

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Section C — Non-Statutory

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**AMENDED AND RESTATED DELEGATION AGREEMENT BETWEEN  
NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION  
AND TEXAS ~~REGIONAL ENTITY—A DIVISION OF ELECTRIC~~ RELIABILITY  
~~COUNCIL OF TEXAS~~ ENTITY, INC.**

AMENDED AND RESTATED DELEGATION AGREEMENT (“Agreement”) made effective ~~January 3, 2009~~, 2010, between the North American Electric Reliability Corporation (“NERC”), an organization certified by the Federal Energy Regulatory Commission (“Commission”) pursuant to Section 215(c) of the Federal Power Act to establish and enforce Reliability Standards for the bulk power system, and the Texas ~~Regional Entity—a Division of Electric Reliability Council of Texas~~ Entity, Inc. (“Texas RE”), an organization established to develop and enforce Reliability Standards within the geographic boundaries identified on **Exhibit A** to this Agreement, and for other purposes. NERC and Texas RE may be individually referred to herein as “Party” or collectively as “Parties.”

**WITNESSETH**

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

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

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

AMENDED AND RESTATED TEXAS ~~RE~~ RELIABILITY ENTITY REGIONAL DELEGATION AGREEMENT ~~APPROVED BY FERC EFFECTIVE JANUARY 3,~~

2009

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

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

- (A) The Regional Entity is governed by —
  - (i) an independent board;
  - (ii) a balanced stakeholder board; or
  - (iii) a combination independent and balanced stakeholder board.
- (B) The Regional Entity otherwise satisfies the provisions of Section 215(c)(1) and (2) of the Act; and
- (C) The agreement promotes effective and efficient administration of bulk power system reliability;

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

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

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

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

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

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

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

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

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

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

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

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

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**2. Representations.**

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

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

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

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

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

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

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

**3. Covenants.**

(a) During the term of this Agreement, Texas RE shall maintain and preserve its qualifications for delegation pursuant to the Act and shall not amend the Texas RE Rules without

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NERC's approval, which shall not be unreasonably withheld or delayed and which shall, in the case of a Regional Entity organized on an Interconnection-wide basis, be governed by the presumptions provided for in Section 215(d)(2) and (e)(4)(C) of the Act, and be subject to any required Commission approval.

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

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

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

(a) Based upon the representations, warranties and covenants of Texas RE in Sections 2 and 3 above, the corporate governance documents set forth in **Exhibit B**, the standards development process set forth in **Exhibit C**, and the regional compliance enforcement program set forth in **Exhibit D**, NERC hereby delegates authority, pursuant to Section 215(e)(4) of the Act, to Texas RE for the purpose of proposing Reliability Standards to NERC, as set forth in Section 5 of this Agreement, and enforcing Reliability Standards, as set forth in Section 6 of this Agreement, within the geographic boundaries set forth on **Exhibit A**. Without limiting the scope of the foregoing delegation, as of the effective date of this Agreement, Texas RE is delegated authority and responsibility for continuation of all compliance monitoring and enforcement activities formerly delegated to and conducted by Texas Regional Entity, a division of Electric Reliability Council of Texas, Inc. ("ERCOT") prior to the effective date, including without limitation: all compliance audits, spot checks, self-certifications, self-reports, compliance violation investigations, investigations of complaints, investigation and processing of possible violations and alleged violations and imposition of penalties or sanctions for violations, review, acceptance or rejection, and oversight of completion of settlement agreements with and mitigation plans of registered entities, and receipt, review, acceptance or rejection, approval or disapproval, and ongoing monitoring, of Technical Feasibility Exceptions requested by

AMENDED AND RESTATED TEXAS RELIABILITY ENTITY REGIONAL DELEGATION AGREEMENT APPROVED BY FERC EFFECTIVE JANUARY 3, 2009

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registered entities to certain Requirements of Critical Infrastructure Protection Standards. No further redelegation of authority or responsibility, in total or in part, under this Agreement is allowed without NERC's express consent.

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

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

## 5. **Reliability Standards.**

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

(i) propose Reliability Standards, Regional Variances, or modifications thereof to NERC, which shall be considered by NERC through an open and inclusive process for proposing and adopting Reliability Standards that affords Texas RE reasonable notice and opportunity to be heard; and

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

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

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

**6. Enforcement.**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### 11. Term and Termination.

(a) This Agreement shall become effective ~~April 5, 2008~~ on \_\_\_\_\_, 2010, pursuant to the ~~March 21, 2008~~ \_\_\_\_\_, 2010 order of the Federal Energy Regulatory Commission (~~122( FERC 61,245)~~ \_\_\_\_\_).

(b) The initial term of the Agreement shall be ~~three (3) years~~ from the ~~original~~ effective date ~~of until~~ May ~~16, 2007, prior to which time NERC shall conduct an audit pursuant to subsections 6(e) and 7(i) to ensure that~~ 2, 2011. ~~So long as~~ Texas RE continues to meet all applicable statutory and regulatory requirements necessary to maintain its eligibility for delegation. ~~If Texas RE meets such requirements~~, this Agreement may be renewed for another five (5) year term. If this Agreement is not renewed or becomes subject to termination for any reason, the Parties shall work to ensure a transition of Texas RE's Delegated Authority to NERC or to another eligible entity. The termination of this Agreement shall not take effect until such transition has been effected, unless the transition period exceeds one year, at which time Texas RE may unilaterally terminate.

(c) If any provision of this Agreement, or the application thereof to any person, entity or circumstance, is held by a court or regulatory authority of competent jurisdiction to be invalid, void, or unenforceable, or if a modification or condition to this Agreement is imposed by a regulatory authority exercising jurisdiction over this Agreement, the Parties shall endeavor in

AMENDED AND RESTATED TEXAS RE RELIABILITY ENTITY REGIONAL DELEGATION AGREEMENT ~~APPROVED BY FERC EFFECTIVE JANUARY 3,~~  
2009

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good faith to negotiate such amendment or amendments to this Agreement as will restore the relative benefits and obligations of the signatories under this Agreement immediately prior to such holding, modification or condition. If either Party finds such holding, modification or condition unacceptable and the Parties are unable to renegotiate a mutually acceptable resolution, either Party may unilaterally terminate this Agreement. Such termination shall be effective one year following written notice by either Party to the other Party and to the Commission, or at such other time as may be mutually agreed by Texas RE and NERC.

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

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

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

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**14. Confidentiality.** During the course of the Parties' performance under this Agreement, a Party may receive Confidential Information, as defined in Section 1500 of NERC's Rules of Procedure. Except as set forth herein, the Parties agree to keep in confidence and not to copy, disclose, or distribute any Confidential Information or any part thereof, without the prior written permission of the issuing Party, unless disclosure is required by subpoena, law, or other directive of a court, administrative agency, or arbitration panel, in which event the recipient hereby agrees to provide the Party that provided the Confidential Information with prompt notice of such request or requirement in order to enable such issuing Party to (a) seek an appropriate protective order or other remedy, (b) consult with the recipient with respect to taking steps to resist or narrow the scope of such request or legal process, or (c) waive compliance, in whole or in part, with the terms of this Section. In the event a protective order or other remedy is not obtained or ~~that~~the issuing Party waives compliance with the provisions, the recipient agrees to furnish only that portion of the Confidential Information which the recipient's counsel advises is legally required and to exercise best efforts to obtain assurance that confidential treatment will be accorded to such Confidential Information. In addition, each Party shall ensure that its officers, trustees directors, employees, subcontractors and subcontractors' employees, and agents to whom Confidential Information is exposed are under obligations of confidentiality that are at least as restrictive as those contained herein. This confidentiality provision does not prohibit reporting and disclosure as directed by NERC, as set forth in Section 6 of this Agreement.

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

**16. Amendments to the NERC Rules.** NERC shall not adopt amendments to the NERC Rules that conflict with the rights, obligations, or programs of Texas RE under this Agreement without first obtaining the consent of Texas RE, which consent shall not be unreasonably withheld or delayed. To the extent Texas RE does not consent, NERC shall have the right to invoke the dispute resolution provisions of Section 17 and, if such effort fails to resolve the dispute, to petition the Commission to adopt the amendment to the NERC Rules. To the extent that the Commission issues an order amending or materially affecting the rights or obligations of

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Texas RE under this Agreement, Texas RE shall have the option, exercisable no later than 60 days after issuance of such order, to terminate this Agreement. Such termination shall be effective one year following written notice by Texas RE to NERC and the Commission, or at such other time as may be mutually agreed by Texas RE and NERC.

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

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

If to NERC:  
North American Electric  
Reliability Corporation  
Suite #225  
116-390 Village Blvd.  
Princeton, NJ 08540-5721  
Attn: ~~David Nevius~~  
Facsimile: (609) 452-9550

If to Texas RE:  
Texas ~~Regional~~Reliability Entity, Inc.  
~~7620 Metro Center Drive~~2700 Via Fortuna,  
Austin, Texas ~~78744~~78746  
Attn: Larry Grimm,  
Chief Executive Officer ~~& CCO~~  
Facsimile: (512) 225-7165

**19. Governing Law.** When not in conflict with or preempted by federal law, this Agreement will be governed by and construed in accordance with the laws of New Jersey without giving effect to the conflict of law principles thereof. The Parties recognize and agree not to contest the exclusive or primary jurisdiction of the Commission to interpret and apply this Agreement;

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provided however that if the Commission declines to exercise or is precluded from exercising jurisdiction of any action arising out of or concerning this Agreement, such action shall be brought in any state or federal court of competent jurisdiction in New Jersey. All Parties hereby consent to the jurisdiction of any state or federal court of competent jurisdiction in New Jersey for the purpose of hearing and determining any action not heard and determined by the Commission.

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

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

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

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

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

NORTH AMERICAN  
ENTITY ~~—A, INC~~  
ELECTRIC RELIABILITY CORPORATION

TEXAS ~~REGIONAL~~RELIABILITY  
~~DIVISION OF ELECTRIC~~  
RELIABILITY COUNCIL OF TEXAS,  
INC. \_\_\_\_\_

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

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

AMENDED AND RESTATED TEXAS ~~RE~~RELIABILITY ENTITY REGIONAL DELEGATION AGREEMENT APPROVED BY FERC EFFECTIVE JANUARY 3,

2009  
PAGE 16 of 17

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Name: ~~David A. Whiteley~~

Name: Larry

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Grimm

Title: ~~Executive Vice President~~  
Executive Officer &

Title: Chief

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Date: \_\_\_\_\_, ~~2009~~2010

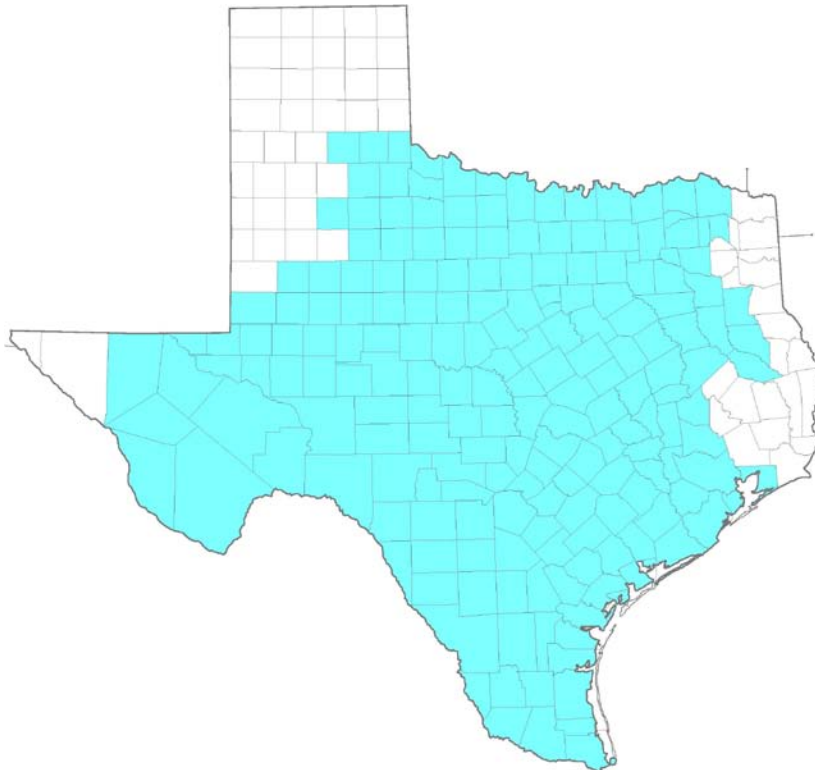
~~Chief Compliance Officer~~  
Date: \_\_\_\_\_,

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**EXHIBIT A – REGIONAL BOUNDARIES**

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



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## Exhibit B — Governance

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

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

~~A. Texas RE is governed by a combination independent and balanced stakeholder board.~~

~~B. Section 4.2 of Texas RE's bylaws (the bylaws of Electric Reliability Council of Texas, Inc.) specify that its board shall have 16 members, as follows:~~

- ~~A. Five (5) independent individuals who are unaffiliated with any electric market participant ("Unaffiliated Directors") who are each approved by the Public Utility Commission of Texas ("PUCT") for a three-year term;~~
- ~~B. Six (6) electric market participant representatives (plus a segment alternate for each such representative) from each of the following market segments: independent generators, investor-owned utilities, power marketers, retail electric providers, municipally owned utilities, and cooperatives;~~
- ~~C. Three (3) consumer representatives;~~
- ~~D. CEO of ERCOT (as ex officio voting Director); and~~
- ~~E. Chairman of the PUCT, as an ex officio non-voting Director.~~

~~C. Subsection 4.3 (b)(2) ii of Texas RE's bylaws define the requirements of "independence" as follows:~~

- ~~a. Unaffiliated Directors or family members (any spouse, parent, spouse of a parent, child or sibling, including step and adoptive relatives, and household member) shall not have current or recent ties (within the last two years) as a director, officer or employee of a Market Participant or its Affiliates.~~
- ~~b. Unaffiliated Directors or family members (any spouse, parent, spouse of a parent, child or sibling, including step and adoptive relatives and any household member) shall not have direct business relationships, other than retail customer relationships, with a Market Participant or its Affiliates.~~
- ~~c. To the extent that an Unaffiliated Director or family member (any spouse, parent, spouse of a parent, child or sibling, including step and adoptive relatives) living in the same household or any other household member owns stocks or bonds of Market Participants, these must be divested or placed in a blind trust prior to being seated on the Board."~~

~~d. Unaffiliated Directors shall not have any relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of an ERCOT board member, including the Delegated Authority.~~

~~D. Texas RE's bylaws achieve balance on the board because the board has representation from seven (7) segments (six (6) market segments plus consumer representatives) and five (5) independent directors, and Section 4.7 of the bylaws contains the following quorum and voting requirements:~~

~~Except as may be otherwise specifically provided by law, the Articles of Incorporation or these Bylaws, at all meetings of the Board, fifty percent (50%) of the seated Directors shall constitute a quorum for the transaction of business. The act of at least sixty-seven percent (67%) affirmative votes of the eligible voting Directors shall be the act of the Board, unless the act of a greater number is otherwise required by law, the Articles of Incorporation, or these Bylaws. If a quorum shall not be present at any meeting of the Board, the Directors present may adjourn the meeting.~~

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

~~A. Texas RE or its affiliate is an RTO or ISO and therefore a user, owner, or operator of bulk power system facilities. Article 6 and Section 7.2 of Texas RE's bylaws establish a strong separation between Texas RE's oversight and operations functions, as follows:~~

~~Section 6.1 TRE Responsibilities and Duties. The TRE shall be a functionally independent division within ERCOT which shall be responsible for proposing, developing, implementing and enforcing Reliability Standards in accordance with the Delegated Authority. The TRE shall also be responsible for investigating compliance with and enforcing violations of the ERCOT Protocols ("ERCOT Compliance"), so long as the ERCOT Compliance activities do not conflict with the Delegated Authority. The TRE shall develop policies, processes, standards, and procedures to implement the Delegated Authority and the ERCOT Compliance activities. The TRE shall form a Reliability Standards Committee ("RSC"), comprised of members from all ERCOT Segments, to propose, receive, consider, authorize, and vote on Reliability Standards and Reliability Variances, in accordance with the Texas Regional Entity Standards Development Process and procedures. All proposed ERCOT-specific Reliability Standards and Reliability Variances requests must be approved by the Board, prior to being submitted to NERC.~~

~~Section 6.2 TRE Independence. The TRE and its employees shall function independently of the other divisions, departments and employees~~

~~of ERCOT. TRE employees shall be responsible for creating and monitoring a separate budget to be submitted to the Board for approval and then to the North American Electric Reliability Corporation ("NERC") for approval, pursuant to a Delegation Agreement ("TRE Budget"). The portion of the TRE Budget which is for activities that are not related to the Delegated Authority but are for ERCOT Compliance activities will be approved by the PUCT. Except for ERCOT Compliance activities and any extraordinary activities that are specifically approved by NERC in the TRE Budget, the TRE shall be funded separately by NERC. The TRE shall (i) maintain separate books and records to account for its finances, separating income and expenditures for the Delegated Authority and the ERCOT Compliance Activities and (ii) pay a fair market rate for any goods and services obtained from ERCOT, or if a fair market rate is not readily determinable without undue effort or expense, at least the out-of-pocket cost incurred by ERCOT in respect thereof. The ERCOT acknowledges that the TRE Chief Compliance Officer and the TRE staff will conduct investigations into and will prosecute enforcement actions regarding the matters within the scope of the TRE's responsibilities and duties, including investigations and prosecutions of ERCOT.~~

~~Section 6.3 TRE Management. The business and affairs of the TRE shall be managed directly by the Board, or a subcommittee thereof, to insure independence of the TRE from the other ERCOT operations and activities, including the ERCOT Independent System Operator functions. The Board shall hire a Chief Compliance Officer ("CCO") who, under its supervision and direction, shall carry on the general affairs of the TRE as the chief executive officer. The CCO shall be independent of any market participant and shall be an independent member of the staff of ERCOT, reporting exclusively to the Board. The Board shall only hire a CCO after consulting the PUCT Commissioners and Executive Director, and obtaining the approval of the PUCT Executive Director. The Board may also appoint a financial director who will report to the CCO, with responsibility for overseeing the budgeting, finance and accounting functions necessary for the independent operation of the TRE. The TRE may retain outside advisors as it deems necessary. The CCO shall have the sole authority to retain or terminate such outside counsel and other advisors as the CCO may deem appropriate in his or her sole discretion. The CCO shall have the sole authority to approve related fees and retention terms for such advisors, in accordance with the TRE Budget. The CCO shall make an annual report and periodic reports to the Board concerning the activities and expenditures of the TRE, and the TRE shall have its separate financial statements reviewed or audited annually. The CCO shall ensure that the TRE files all required reports with NERC. CCO shall, in cooperation with the financial director of the TRE, monitor the expenditure of the monies received by the TRE to ensure that such are deployed in accordance with the TRE Budget, as approved by the Board and NERC.~~

~~Section 6.4 TRE Employees. To the fullest extent practicable under applicable law, the TRE and the CCO shall be responsible for hiring, firing and compensating all TRE employees. TRE employees shall be~~

~~compensated from the TRE budget. If permissible, and consistent with the Board's and CCO's compensation policies for the TRE employees, such employees may participate in insurance and other benefits extended to ERCOT employees, provided that the TRE reimburses ERCOT for the full cost of providing such benefits. The TRE is authorized to employ attorneys, and all such attorneys shall report to the CCO and shall have ethical and other obligations solely to the TRE and not to ERCOT. Such attorneys are expressly authorized and required to provide advice to the CCO and TRE regarding the Delegated Authority and ERCOT Compliance activities, including investigations and enforcement actions involving ERCOT. Such attorneys are specifically authorized to assist with the prosecution of enforcement actions relating to the Delegated Authority or ERCOT Compliance activities.~~

~~Section 6.5 Evaluation of TRE Performance. The Board shall monitor the TRE and CCO's performance, establish and review the CCO's compensation and provide annual, or at its election, more frequent, evaluations. The Board may receive and will consider input from the PUCT regarding the compliance and enforcement activities of the CCO and the TRE. It shall be the CCO's duty, in cooperation with the financial director of the TRE, to monitor the expenditure of the monies received by the TRE to ensure that such are deployed in accordance with the TRE Budget, as approved by the Board, PUCT and NERC. The Board will consider input from the PUCT regarding the compliance and enforcement activities and performance of the CCO and TRE. Neither the CCO nor any TRE employee may be retaliated against by ERCOT or its Board for investigating or participating in any enforcement activities pursuant to the Delegated Authority. The Board may not terminate, discipline, or demote the CCO or any TRE employees, advisors or contractors because of compliance or enforcement activities conducted in good faith.~~

~~Section 7.2 CCO. The Board shall hire a Chief Compliance Officer ("CCO") who, under the Board's supervision and direction shall carry on the affairs of the TRE. The CCO shall comply with all orders of the Board and will coordinate with the NERC regarding activities relating to the Delegated Authority and with PUCT regarding ERCOT Compliance activities. All employees and contractors of the TRE shall report and be responsible, to the CCO. The CCO shall be responsible for employment-related decisions for all employees of the TRE that are not appointed by the Board and shall provide input to the Board with respect to TRE employees appointed by the Board. The CCO shall perform such other duties as may be determined from time to time by the Board, for the benefit of the TRE. The Board may only terminate, discipline, not renew, or demote the CCO after consulting the PUCT Commissioners and Executive Director, and obtaining the approval of the PUCT Executive Director.~~

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

~~A. Texas RE has an open membership policy that permits full and fair participation of all stakeholders through their representatives, including in the development and voting on Regional Reliability Standards.~~

~~1. Membership Categories. Section 3.1 (a) of the Texas RE bylaws provides that members may qualify in one of the six market segments, if they have an actual financial interest in and are able to business in the ERCOT Region, or in the Consumer segment. Section 3.2 of the bylaws provides that members may qualify in one of three membership categories:~~

~~(a) Corporate Members shall have the rights and obligations as described in these Bylaws including the right to vote on all matters submitted to the general membership (such as election of Directors, election of TAC Representatives and amendments to the Articles of Incorporation and these Bylaws).~~

~~(b) Associate Members shall have the rights and obligations as described in these Bylaws excluding the right to vote on any matter submitted to the general Membership (such as election of Directors, election of TAC Representatives and amendments to the Articles of Incorporation and these Bylaws).~~

~~(c) Adjunct Members may be approved for Adjunct Membership by the Board if such entity does not meet the definitions and requirements to join as a Corporate or Associate Member. Adjunct Members shall have no right to vote on any matter submitted to the general Membership nor any right to be elected or appointed to the ERCOT Board, TAC or any subcommittee of the Board or TAC. Adjunct Members shall be bound by the same obligations as other Members of ERCOT.~~

~~2. Membership Obligations. Section 3.3 of the bylaws provides that, (a) each Member must comply with any applicable planning and operating criteria, procedures and guides adopted by or under the direction of the Board to maintain electric system reliability, coordinate planning and promote comparable access to the transmission system by all users, and (b) consistent with applicable laws and regulations, Members must share information at ERCOT's or TRE's request as necessary for the furtherance of ERCOT or TRE's activity and consistent with PUCT and NERC rules relating to confidentiality.~~

~~3. Full and Fair Participation. Section 3.6 of the bylaws provides that no Entity may simultaneously hold more than one Corporate Membership or more than one seat on the Board, TAC, or RSC and that members may join as a Corporate member in only one segment. Subsection 3.6(c) provides that each Corporate member in good standing is entitled to one vote on each matter submitted to a vote of the Corporate members.~~

~~The Texas Regional Entity Standards Development Process ("TRE SDP," see Exhibit D) provides for due process, openness, and balance in Standards development and modification.~~

~~Section IV of the TRE SDP provides that any person, acting as a representative of an organization which is directly and materially affected by the operation of ERCOT's Bulk Power System ("BPS") is allowed to request a Standard be developed or an existing Standard modified or deleted by creating a Standards Authorization Request (SAR). Section V of the TRE SDP provides that (1) any person representing an organization with a direct and material interest in the bulk power system has a right to participate in the standards development process by: a) expressing an opinion and its basis, b) having that position considered, and c) appealing any negative decision. Section V specifically provides that, "Participation is open to all organizations that are directly and materially affected by ERCOT's BPS [Bulk Power System] reliability. There shall be no undue financial barriers to participation. Participation shall not be conditioned upon membership in ERCOT, and shall not be unreasonably restricted on the basis of technical qualifications or other such requirements. Meetings of SDTs [Standards Drafting Teams] are open to ERCOT's Membership and to others and all proposed SARs and Standards are posted for comment on the Texas RE Website."~~

~~B. Texas RE charges no more than a nominal membership fee and agrees to waive the fee for good cause shown. Section 3.4 of the bylaws provides for the following fees:~~

~~Annual Member Service Fees for Corporate Members shall be \$2,000. Annual Member Service Fees for Associate Members shall be \$500. Annual Member Service Fees for Adjunct Members shall be \$500. The Annual Member Service Fees for Residential and Commercial Consumer Members shall be \$100 for Corporate Membership and \$50 for Associate Membership; provided that there will be no charge for Annual Member Service Fees for associations that qualify for Commercial Consumer Membership or for other associations or persons, upon good cause shown. Office of Public Utility Counsel ("OPUC") and the appointed Residential Consumer TAC Representative(s) shall be eligible to be Corporate Members without the payment of Annual Member Service Fees. Any Member may request that the Member's Annual Member Service Fees be waived for good cause shown.~~

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

~~A. Texas RE's bylaws, procedural rules, and protocols assure balance in decision-making committees and subordinate organizational structures in how such groups are structured.~~

~~Section 6.1 of the bylaws provides that the Texas RE shall form a Reliability Standards Committee ("RSC"), comprised of members from all ERCOT Segments, to propose, consider and vote on Reliability Standards and Reliability Variances, in accordance with the Texas Regional Entity Standards Development Process and procedures. All proposed ERCOT-specific Reliability Standards and Reliability Variances requests and must be approved by the Board, prior to being submitted to NERC.~~

~~B. Texas RE's bylaws, procedural rules, and protocols assure balance in decision-making committees and subordinate organizational structures in how such groups make decisions.~~

~~Step 1 of the TRE SDP provides that any entity that is directly or materially impacted by the operation of the Bulk Power System within the geographical footprint of the ERCOT Region may request the development, modification, or deletion of an ERCOT Standard or Regional Variance. The RSC, comprised of the seven Segments, will consider and determine which requests will be assigned for development, modification, or deletion (Article II and Step 1 of the TRE SDP). Step 6A of the TRE SDP provides that all members may vote on proposed new standards, standard revisions, or standard deletions ("Standards" herein), and at least one member from five of the seven segments must vote to constitute a quorum. Step 6A further provides that each Segment shall receive one Segment Vote, the representative of each voting member shall receive an equal fraction of its Segment Vote, and if a draft Standard receives 4.67 affirmative votes during the 15 day voting period, the RSC will forward the Standard to the board for a vote. Step 6B of the TRE SDP provides that, if a Standard does not timely receive 4.67 affirmative votes, the Standard may be remanded for further work and reposted for a second comment period before a second vote. The board may approve, remand to RSC or disapprove a proposed Standard.~~

~~C. Texas RE's bylaws, procedural rules, and protocols assure no two industry sectors can control any action and no one industry sector can veto any action. The RSC is comprised of representatives from each Segment. The TRE SDP requires five (5) of the seven (7) Segments to constitute a quorum for a vote on a proposed Standard. (Step 6A of TRE SDP). Even if a proposed Standard does not receive a 4.67 or greater affirmative vote during a second voting period, the RSC will forward the Standard and implementation plan to the board.~~

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

~~Texas RE's bylaws, procedural rules, and protocols provide reasonable notice and opportunity for public comment, due process, openness, and balance of interests in exercising its duties, as follows:~~

~~A. Notice of Meetings. Section 4.6(a) of the bylaws requires the board to meet at least quarterly, with at least one meeting occurring in conjunction with the annual meeting of the members. Section 4.6(b) requires notice of any meeting of the board or any board subcommittee where at least one board director is present be given to each Director and made available electronically to the public on the Internet not less than one week before the date of the meeting; provided, however, the board may meet on urgent matters on such shorter notice, not less than 2 hours, as the person or persons calling such meeting reasonably may deem necessary or appropriate for urgent matters (emergency conditions threatening public health or safety, or a reasonably unforeseen situation). Section 4.6 (e) also provides that notice of the agenda, place, date, and hour of any meeting of the RSC be made available electronically to the public on the Internet not less than one week before the date of the meeting; provided that, RSC may meet on urgent matters on such shorter notice, not less than 2 hours, in the event of urgent matters.~~

~~B. Public Meetings. Section 4.6(e) of the bylaws requires that meetings of the board or board subcommittees be open to the public, although they, at their discretion, exclude any persons who are not directors from any meeting or portion of any meeting held in Executive Session, including for purposes of voting. Executive session is limited to matters involving sensitive matters including, but, confidential personnel information, contracts, lawsuits, deliberation of purchase of real property, competitively sensitive information, deployment or implementation of security devices or other information related to the security of ERCOT's regional electrical network and discussion of any matters on which the Board receives legal advice from its attorneys. Section 4.6(d) of the bylaws requires the board to promulgate procedures allowing public access to meetings of the board and board subcommittees and allowing for members of the public to provide comment on the matters under discussion at public portions of meetings of the board and subcommittees.~~

~~C. Available Minutes. Section 4.6(f) of the bylaws requires the Secretary to keep minutes for all Board meetings.~~

~~D. Bylaws Amendment. Section 13.1 (d) (4) of the bylaws provides that an affirmative vote by at least four of the seven Segments is necessary to amend the bylaws, and, if permission for any amendment is required by NERC or FERC under the Delegation Agreement, the required permission must be obtained before such amendment is effective.~~



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

(A Texas Non-Profit Corporation)

January 18, 2010

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## **ARTICLE I. DEFINITIONS**

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

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

(b) "Board" means the Board of Directors of the Corporation.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## **ARTICLE II. PURPOSE**

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

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

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

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

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

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

## **ARTICLE III. MEMBERSHIP**

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

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

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

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

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

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

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

(a) **System Coordination and Planning:** An entity that is registered with NERC as a Reliability Coordinator (RC), Balancing Authority (BA), Planning Authority (PA), Resource Planner (RP), or Interchange Authority (IA).

(b) **Transmission and Distribution:** An entity that is registered with NERC as a Transmission Owner (TO), Transmission Planner (TP), Transmission Service Provider (TSP), Distribution Provider (DP), and/or Transmission Operator (TOP) and is not a Cooperative or Municipal Utility.

(c) **Cooperative:** An entity that is (a) a corporation organized under Chapter 161 of the Texas Utilities Code or a predecessor statute to Chapter 161 and operating under that chapter; or (b) a corporation organized as an electric cooperative in a state other than Texas that has obtained a certificate of authority to conduct affairs in the State of Texas; or (c) a cooperative association organized under Tex. Rev. Civ. Stat. 1396-50.01 or a predecessor to that statute and operating under that statute and is registered with NERC for at least one reliability function.

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

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

(f) **Load-Serving and Marketing:** An entity that is registered with NERC as a Load Serving Entity (LSE), a Purchasing-Selling Entity, or any newly defined NERC reliability function for demand response.

**Section 5. Participation.**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(a) Qualifications:

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

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

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

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



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

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

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

(vi) Other criteria as approved by the Board.

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

(c) Selection.

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

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

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

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

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

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

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

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

**Section 5. Vacancies and Removal.**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## **ARTICLE VII. OFFICERS**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Exhibit C – Regional Standard Development Procedure

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

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### COMMON ATTRIBUTE 1

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

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~~ERCOT's regional standard development procedure or other governing documents contain the following language relative to this Common Attribute:~~

~~See TRE Standards Development Process (Process) – Introduction, 4th ¶:~~

~~Proposed ERCOT Specific Standards shall be subject to approval by NERC, as the electric reliability organization, and by FERC before becoming mandatory and enforceable under Section 215 of the FPA. No Standard shall be effective within the Texas RE area unless filed by NERC with FERC and approved by FERC.~~

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### COMMON ATTRIBUTE 2

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

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~~ERCOT's regional standard development procedure or other governing documents contain the following language relative to this Common Attribute:~~

~~See TRE Process – Introduction, 5th ¶:~~

~~ERCOT Specific Standards shall provide for as much uniformity as possible with reliability standards across the interconnected bulk power system of the North American continent. An ERCOT Specific Standard shall be more stringent than a continent wide reliability standard, including a regional difference that addresses matters that the continent wide reliability standard does not, or shall be a regional difference necessitated by a physical difference in the bulk power system. An~~

~~ERCOT Specific Standard that satisfies the statutory and regulatory criteria for approval of proposed North American reliability standards, and that is more stringent than a continent-wide reliability standard, would generally be acceptable.~~

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### **COMMON ATTRIBUTE 3**

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

~~ERCOT's regional standard development procedure or other governing documents contain the following language relative to this Common Attribute:~~

~~See TRE Process — Introduction, 6th ¶:~~

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

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### **COMMON ATTRIBUTE 4**

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

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~~ERCOT's regional standard development procedure or other governing documents contain the following language relative to this Common Attribute:~~

~~See TRE Process — Roles in the Texas RE Reliability Standards Development Process, 1st ¶ — Originator:~~

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

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### **COMMON ATTRIBUTE 5**



~~{Standards or other named} committee~~ <sup>▲</sup>. The Texas RE ~~{reliability standards}~~ committee (~~RSC~~) manages the standards development process. The ~~{standards} committee~~ <sup>RSC</sup> will consider which requests for new or revised standards shall be assigned for development (or existing standards considered for deletion). The ~~{standards} committee~~ <sup>RSC</sup> will advise the Texas RE board on standards presented for adoption.

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ERCOT's regional standard development procedure or other governing documents contain the following language relative to this Common Attribute:

See TRE Process—Roles in the Texas RE Reliability Standards Development Process—5th ¶—Reliability Standards:

~~Reliability Standards Committee (RSC)—A balanced committee comprised of the seven (7) ERCOT Market Participant Segments that will consider which requests for new or revised Standards shall be assigned for development (or existing Standards considered for deletion). The RSC will also vote to recommend whether proposed new or revised Standards should be presented for a vote to all ERCOT Market Participants.~~

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## **COMMON ATTRIBUTE 6**

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

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ERCOT's regional standard development procedure or other governing documents contain the following language relative to this Common Attribute:

See TRE Process—Roles in the Texas RE Reliability Standards Development Process—3rd ¶:

~~Registered ballot body—The registered ballot body comprises all entities or individuals that a) qualify for one of the stakeholder segments; are registered with ERCOT as potential ballot participants in the voting on standards; and are current with any designated fees. Each member of the registered ballot body is eligible to vote on standards. Each standard action has its own ballot pool formed of interested members of the registered ballot body.~~ <sup>▲</sup>

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**COMMON ATTRIBUTE 7**

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

~~ERCOT's regional standard development procedure or other governing documents contain the following language relative to this Common Attribute:~~

~~See TRE Process — Texas RE Reliability Standards Development Process, B- Regional Reliability Standards Development Process Steps — 1st ¶:~~

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

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**COMMON ATTRIBUTE 8**

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

~~ERCOT's regional standard development procedure or other governing documents contain the following language relative to this Common Attribute:~~

~~See TRE Process — Texas RE Reliability Standards Development Process, B- Regional Reliability Standards Development Process Steps, Step 1 — 3rd ¶ & Appendix C:~~

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

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**COMMON ATTRIBUTE 9**

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

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~~ERCOT's regional standard development procedure or other governing documents contain the following language relative to this Common Attribute:~~

~~See TRE Process — Texas RE Reliability Standards Development Process, B- Regional Reliability Standards Development Process Steps, Step 1 — 5th ¶:~~

~~The Reliability Standards Manager will forward all adequately completed SARs to the RSC. Within 60 days of receipt of an adequately completed SAR, the RSC shall determine the disposition of the SAR and post for review and possible comment.~~

**COMMON ATTRIBUTE 10**

The ~~{standards} committee~~RSC may take one of the following actions:

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

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~~ERCOT's regional standard development procedure or other governing documents contain the following language relative to this Common Attribute:~~

~~See TRE Process—Texas RE Reliability Standards Development Process, B-Regional Reliability Standards Development Process Steps, Step 1—6th ¶:~~

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

- ~~Accept the SAR as a candidate for: development of a new Standard, revision of an existing Standard, or deletion of an existing Standard. The RSC may, in its sole discretion, expand or narrow the scope of the SAR under consideration. The RSC shall prioritize the development of SARs as may be required based on the number of SARs under development at any time.~~
- ~~Reject the SAR. If the RSC rejects a SAR, a written explanation for rejection will be delivered to the Originator within 30 days of the decision.~~
- ~~Remand the SAR back to the Originator for additional work. The Reliability Standards Manager will make reasonable efforts to assist the Originator in addressing the deficiencies identified by the RSC. The Originator may then resubmit the modified SAR using the process above. The Originator may choose to withdraw the SAR from further consideration prior to re-submittal to the RSC.~~

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**COMMON ATTRIBUTE 11**

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

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~~ERCOT's regional standard development procedure or other governing documents contain the following language relative to this Common Attribute:~~

~~See TRE Process — Texas RE Reliability Standards Development Process, B. Regional Reliability Standards Development Process Steps, Step 1 — 7th ¶:~~

~~Any SAR that is accepted by the RSC for development of a Standard (or modification or deletion of an existing Standard) shall be posted for public viewing on the Texas RE Website. SARs will be posted and the status publicly noted at regularly scheduled (appropriately two weeks) intervals.~~

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**COMMON ATTRIBUTE 12**

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

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~~ERCOT's regional standard development procedure or other governing documents contain the following language relative to this Common Attribute:~~

~~See TRE Process — Texas RE Reliability Standards Development Process, B. Regional Reliability Standards Development Process Steps, Step 2 — 3rd ¶:~~

~~The Reliability Standards Manager submits the proposed list of names of the SDT to the ROS. The ROS will either accept the recommendations of the Reliability Standards Manager or modify the SDT slate, as it deems appropriate within 60 days of accepting a SAR for development.~~

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**COMMON ATTRIBUTE 13**

At the direction from the ~~{standards} committee~~RSC, the standards process manager shall facilitate the posting of the draft standard on the Texas RE website, along with a draft implementation plan and supporting documents, for a no less than a ~~{30} day~~ comment period. The standards process manager shall provide notice to Texas RE stakeholders and other potentially interested entities, both within and outside of the

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Texas RE area, of the posting using communication procedures then currently in effect or by other means as deemed appropriate.

~~ERCOT's regional standard development procedure or other governing documents contain the following language relative to this Common Attribute:~~

~~See TRE Process — Texas RE Reliability Standards Development Process, B- Regional Reliability Standards Development Process Steps, Step 4 — 1st ¶:~~

~~At the direction from the RSC, the Reliability Standards Manager then facilitates the posting of the draft Standard on the Texas RE Website, along with a draft implementation plan and supporting documents, for a 30-day comment period. The Reliability Standards Manager shall also inform ERCOT Members and other potentially interested entities inside or outside of ERCOT of the posting using typical membership communication procedures then currently in effect or by other means as deemed appropriate.~~

#### **COMMON ATTRIBUTE 14**

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

~~ERCOT's regional standard development procedure or other governing documents contain the following language relative to this Common Attribute:~~

~~See TRE Process — Texas RE Reliability Standards Development Process, B- Regional Reliability Standards Development Process Steps, Step 4 — 3rd ¶:~~

~~The SDT shall prepare a "modification report" summarizing the comments received and the changes made as a result of these comments. The modification report also summarizes comments that were rejected by the SDT and the reason(s) that these comments were rejected, in part or whole. Responses to all comments will be posted on the Texas RE Website no later than the next posting.~~

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#### **COMMON ATTRIBUTE 15**

Upon recommendation of the drafting team, and if the ~~[standards] committee~~RSC, concurs that all of the requirements for development of the standard have been met, the standards process manager shall post the proposed standard and implementation plan for ballot and shall announce the vote to approve the standard, including when the vote will be conducted and the method for voting. Once the notice for a vote has been

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issued, no substantive modifications may be made to the proposed standard unless the revisions are posted and a new notice of the vote is issued.

ERCOT's regional standard development procedure or other governing documents contain the following language relative to this Common Attribute:

See TRE Process — Texas RE Reliability Standards Development Process, B- Regional Reliability Standards Development Process Steps, Step 5 — 1st ¶:

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

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**COMMON ATTRIBUTE 16**

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

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ERCOT's regional standard development procedure or other governing documents contain the following language relative to this Common Attribute:

See TRE Process — Texas RE Reliability Standards Development Process, B- Regional Reliability Standards Development Process Steps, Step 5 — 2nd ¶:

The Reliability Standards Manager will schedule a Vote by the ERCOT Membership which is to be scheduled to commence no sooner than 15 days and no later than 30 days following this posting.

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**COMMON ATTRIBUTE 17**

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

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ERCOT's regional standard development procedure or other governing documents contain the following language relative to this Common Attribute:

See TRE Process — Texas RE Reliability Standards Development Process, B- Regional Reliability Standards Development Process Steps, Step 6A — 1st ¶:

~~The Texas RE-registered ballot body shall be able to vote on the proposed standard during a 15-day period.~~

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#### **COMMON ATTRIBUTE 18**

~~All members of Texas RE are eligible to participate in voting on proposed new standards, standard revisions or standard deletions. [Alternatively, Each standard action requires formation of a ballot pool of interested members of the registered ballot body].~~

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~~ERCOT's regional standard development procedure or other governing documents contain the following language relative to this Common Attribute:~~

~~See TRE Process — Texas RE Reliability Standards Development Process, B-Regional Reliability Standards Development Process Steps, Step 6A — 3rd ¶:~~

~~All members of ERCOT are eligible to participate in voting on proposed new standards, standard revisions, or standard deletions. There shall be one person designated as the primary representative of each entity.~~

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#### **COMMON ATTRIBUTE 19**

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

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~~ERCOT's regional standard development procedure or other governing documents contain the following language relative to this Common Attribute:~~

~~See TRE Process — Texas RE Reliability Standards Development Process, B-Regional Reliability Standards Development Process Steps, Step 6A — 4th ¶:~~

~~At least one (1) ERCOT Member Representative from five (5) of the seven (7) ERCOT Market Participant Segments must vote to constitute a quorum. Each Segment shall have one (1) Segment Vote. The representative of each Voting ERCOT Member shall receive an equal fraction of its Segment Vote. If a draft Standard receives 4.67 or greater affirmative votes during the 15-day voting period, the RSC will forward the Standard to the ERCOT BOD for action (Step 7).~~

#### **COMMON ATTRIBUTE 20**

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

~~ERCOT's regional standard development procedure or other governing documents contain the following language relative to this Common Attribute:~~

~~See TRE Process—Texas RE Reliability Standards Development Process, B-Regional Reliability Standards Development Process Steps, Step 7—5th ¶:~~

~~Under no circumstances may the board substantively modify the proposed ERCOT Specific Reliability Standard.~~

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#### **COMMON ATTRIBUTE 21**

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

~~ERCOT's regional standard development procedure or other governing documents contain the following language relative to this Common Attribute:~~

~~See TRE Process—Texas RE Reliability Standards Development Process, B-Regional Reliability Standards Development Process Steps, Step 7—6th ¶:~~

~~Once an ERCOT Specific Reliability Standard is approved by the BOD, the standard will be submitted to NERC for approval and filing with FERC.~~

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#### **COMMON ATTRIBUTE 22**

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

~~ERCOT's regional standard development procedure or other governing documents contain the following language relative to this Common Attribute:~~

~~See TRE Process—Appendix B, I. Principles,—3rd ¶—Open:~~

- ~~**Open**—Participation in the development of an ERCOT Specific Reliability Standard shall be open to all organizations that are directly and materially affected by ERCOT bulk power system reliability. There shall be no undue financial barriers to participation. Participation shall not be~~

~~conditioned upon membership in ERCOT, and shall not be unreasonably restricted on the basis of technical qualifications or other such requirements. Meetings of drafting teams shall be open to ERCOT members and others.~~

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#### **COMMON ATTRIBUTE 23**

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

~~ERCOT's regional standard development procedure or other governing documents contain the following language relative to this Common Attribute:~~

~~See TRE Process — Appendix B, I. Principles, — 3rd ¶ — Balanced:~~

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

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#### **COMMON ATTRIBUTE 24**

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

~~ERCOT's regional standard development procedure or other governing documents contain the following language relative to this Common Attribute:~~

~~See TRE Process — Appendix B, I. Principles, — 3rd ¶ — Inclusive:~~

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

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#### **COMMON ATTRIBUTE 25**

- **Fair due process** — The regional reliability standards development procedure shall provide for reasonable notice and opportunity for public comment. At a minimum, the procedure shall include public notice of the intent to develop a

standard, a public comment period on the proposed standard, due consideration of those public comments, and a ballot of interested stakeholders.

~~ERCOT's regional standard development procedure or other governing documents contain the following language relative to this Common Attribute:~~

~~See TRE Process—Appendix B, I. Principles,— 3rd ¶—Fair due process:~~

- ~~• **Fair due process**—The Texas RE Reliability Standards Development Process shall provide for reasonable notice and opportunity for public comment. At a minimum, the procedure shall include public notice of the intent to develop a standard, a public comment period on the proposed standard, due consideration of those public comments, and a ballot of interested stakeholders.~~

**COMMON ATTRIBUTE 26**

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

~~ERCOT's regional standard development procedure or other governing documents contain the following language relative to this Common Attribute:~~

~~See TRE Process—Appendix B, I. Principles,— 3rd ¶—Transparent:~~

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

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**COMMON ATTRIBUTE 27**

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

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~~ERCOT's regional standard development procedure or other governing documents contain the following language relative to this Common Attribute:~~

~~See TRE Process—Appendix B, I. Principles,— 3rd ¶—Last bullet:~~

- ~~• Does not unnecessarily delay development of the proposed ERCOT-Specific Reliability Standard.~~

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**COMMON ATTRIBUTE 28**

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

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ERCOT's regional standard development procedure or other governing documents contain the following language relative to this Common Attribute:

See TRE Process — Appendix B, I. Principles, — 5th ¶:

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

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#### **COMMON ATTRIBUTE 29**

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

ERCOT's regional standard development procedure or other governing documents contain the following language relative to this Common Attribute:

See TRE Process — Appendix B, I. Principles, — 6th ¶:

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

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#### **COMMON ATTRIBUTE 30**

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

~~ERCOT's regional standard development procedure or other governing documents contain the following language relative to this Common Attribute:~~

~~See TRE Process—Appendix B, II. Regional Reliability Standard Characteristics and Elements, b. Elements of a Regional Reliability Standard—1st ¶:~~

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

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### **COMMON ATTRIBUTE 31**

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

~~ERCOT's regional standard development procedure or other governing documents contain the following language relative to this Common Attribute:~~

~~See TRE Process—Appendix B, II. Regional Reliability Standard Characteristics and Elements, b. Elements of a Regional Reliability Standard—2nd ¶:~~

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

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### **COMMON ATTRIBUTE 32**

<b>Applicability</b>	Clear identification of the functional classes of entities responsible for complying with the standard, noting any specific additions or exceptions. If not applicable to the entire Texas RE area, then a clear identification of the portion of the bulk power system to which the standard applies. Any limitation on the applicability of the standard based on electric facility requirements should be described.
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~~ERCOT's regional standard development procedure or other governing documents contain the following language relative to this Common Attribute:~~

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~~See TRE Process—Appendix B, II. Regional Reliability Standard Characteristics and Elements, b. Elements of a Regional Reliability Standard—Table 1—Applicability:~~

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

<b>Measure(s)</b>	Each requirement shall be addressed by one or more measures. Measures are used to assess performance and outcomes for the purpose of determining compliance with the requirements stated above. Each measure will identify to whom the measure applies and the expected level of performance or outcomes required demonstrating compliance. Each measure shall be tangible, practical, and as objective as is practical. It is important to realize that measures are proxies to assess required performance or outcomes. Achieving the measure should be a necessary and sufficient indicator that the requirement was met. Each measure shall clearly refer to the requirement(s) to which it applies.
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~~ERCOT's regional standard development procedure or other governing documents contain the following language relative to this Common Attribute:~~

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~~See TRE Process—Appendix B, II. Regional Reliability Standard Characteristics and Elements, b. Elements of a Regional Reliability Standard—Table 1—Measures(s):~~

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

<p><b>Compliance Monitoring Process</b></p>	<p>Defines for each measure:</p> <ul style="list-style-type: none"> <li>• The specific data or information that is required to measure performance or outcomes.</li> <li>• The entity that is responsible for providing the data or information for measuring performance or outcomes.</li> <li>• The process that will be used to evaluate data or information for the purpose of assessing performance or outcomes.</li> <li>• The entity that is responsible for evaluating data or information to assess performance or outcomes.</li> <li>• The time period in which performance or outcomes is measured, evaluated, and then reset.</li> <li>• Measurement data retention requirements and assignment of responsibility for data archiving.</li> <li>• <del>Violation severity levels.</del></li> </ul>
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ERCOT's regional standard development procedure or other governing documents contain the following language relative to this Common Attribute:

See TRE Process — Appendix B, II. Regional Reliability Standard Characteristics and Elements, b. Elements of a Regional Reliability Standard — Table 2 — Compliance Monitoring Process:

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

## Appendix to Exhibit C to the Delegation Agreement Between NERC and ~~ERCOT~~Texas Reliability Entity

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## I. Introduction

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

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

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

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

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

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

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

## II. Background

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

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

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

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

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

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

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

### III. Regional Standards Definition

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

~~The~~ Texas RE may develop, through its own processes, ~~separate~~: (1) Regional Standards that go beyond, add detail to, or implement NERC Reliability Standards; ~~obtain a Regional Variance;~~ or that cover matters not addressed in NERC Reliability Standards; ~~Regional Criteria may be developed,~~ and exist in ERCOT Protocols, Operating Guides, and/or Procedures ~~separately from~~; (2) Regional Variances that allow an alternative approach to meeting the same reliability

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~~objective as the NERC Reliability Standards, or may be proposed as NERC Reliability Standards. Regional Criteria that exist separately from NERC Reliability Standards shall not be inconsistent with or less stringent than NERC Reliability Standards. Standard and are typically necessitated by physical differences.~~

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

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

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

**Registered Ballot Body (RBB)** – The Registered Ballot Body is comprised of all entities or individuals ~~that (whether or not they are Texas RE corporate members) that are ERCOT region BPS owners, operators, and users and~~ qualify for one of the ~~below-listed~~ Texas RE ~~Segments~~Standards Development Sectors, and are registered with the Texas RE as potential ballot participants. ~~This includes the ERCOT Independent System Operator (ERCOT ISO) and all entities or individuals that are part of an ERCOT Market Participant Segment and are current with any ERCOT designated fees or have received a fee waiver.~~

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

~~**Reliability and Operations Subcommittee (ROS)** – A balanced subcommittee comprised of the seven (7) ERCOT Market Participant Segments responsible for reviewing events and issues as they may impact ERCOT system reliability and operations. Meetings of the ROS are open to all interested parties. The ERCOT ISO is an active participant in all ROS discussions.~~

~~**Reliability Standards Committee (RSC)** – A balanced committee comprised of entities representing the seven (7) ERCOT Market Participant Segments and the ERCOT ISO, that will consider which requests for new or revised Regional Standards shall be assigned for development (or existing Regional Standards considered for deletion). The RSC will also vote to recommend whether proposed new or revised Regional Standards should be presented for a vote to the Registered Ballot Body.~~

**Reliability Standards Committee (RSC)** – A balanced committee comprised of entities representing the six Texas RE Standard Development Sectors. The RSC will consist of two representatives from each Sector (except that Sectors with only one member may only have one representative), as elected by the Sector, and the RSC requires a quorum of at least one representative from at least two-thirds (2/3) of the Sectors to take action. The RSC in coordination with the Reliability Standards Manager will review, participate in, and manage the

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Texas RE Regional Standards Development Process, and develop Texas RE Regional Standards on a schedule as directed by NERC and as needed per the reliability related needs of the ERCOT Region. Where necessary or appropriate, the RSC will coordinate the development of Texas RE Regional Standards and Regional Variances with the development of national standards appearing in the NERC work plan, and the RSC will coordinate and submit comments as a group, to the extent feasible. The RSC will also review FERC Orders pertaining to standards and standards development activities to ensure directives are addressed in regional standard development.

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

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

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

**Texas RE ~~Segments~~Standards Development Sectors (Sectors)** – The ~~seven (7) ERCOT Market Participant Segments~~six (6) Texas RE Standards Development Sectors are defined as follows:

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

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## V. Texas RE Regional Standards Development Process

### A. Assumptions and Prerequisites

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

- **Due process** – Any person representing an organization with a direct and material interest has a right to participate by:
  - a) Expressing an opinion and its basis,
  - b) Having that position considered, and
  - c) Appealing any negative decision
- **Openness** – Participation is open to all organizations that are directly and materially affected by ERCOT region's BPS reliability. There shall be no undue financial barriers to participation. Participation shall not be conditioned upon membership in ~~ERCOT~~Texas RE, and shall not be unreasonably restricted on the basis of technical qualifications or other such requirements. Meetings of SDTs are open to all interested parties. All proposed SARs and Regional Standards are posted for comment on the Texas RE Website.
- **Balance** – The Texas RE Standards Development Process strives to have an appropriate balance of interests and shall not be dominated by any single interest category.

### B. Regional Standards Development Process Steps

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

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

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

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

- ~~Any market participant,~~
- ~~PUCT Staff,~~
- ~~ERCOT Staff,~~

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- ~~TRE Staff, and~~
- ~~Any entity that resides (or represents residents) in the ERCOT Region or operates in the ERCOT Region electricity market.~~

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

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

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

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

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

- Accept the SAR as a candidate for: development of a new Regional Standard, revision of an existing Regional Standard, or deletion of an existing Regional Standard. The RSC may, in its sole discretion, expand or narrow the scope of the SAR under consideration. The RSC shall prioritize the development of SARs as may be required based on the number of SARs under development at any time.
- Reject the SAR. If the RSC rejects a SAR, a written explanation for rejection will be delivered to the Originator within 30 days of the decision, and the Texas RE BOD will also be notified with such explanation. The Texas RE BOD may, at its discretion, direct the RSC to reconsider any SAR that has been rejected.
- Remand the SAR back to the Originator for additional work. The RSM will make reasonable efforts to assist the Originator in addressing the deficiencies identified by the RSC. The Originator may then resubmit the modified SAR using the process above. The Originator may choose to withdraw the SAR from further consideration prior to re-submittal to the RSC.

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

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

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

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

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

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

The RSM ~~submits~~shall submit the proposed list of names of the SDT to the ~~ROS~~RSC. The ~~ROS~~RSC will either accept the recommendations of the RSM or modify the SDT slate, as it deems appropriate within 60 days of accepting a SAR for development. ~~Upon approval of the SDT slate by the ROS, the RSC will declare a preliminary date on which the SDT is expected to have ready a completed draft Regional Standard and associated supporting documentation available for comments.~~

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

The RSM will collaborate with the SDT to develop a work plan including the establishment of milestones for completing critical elements. This plan ~~is then~~shall be delivered and reported to the RSC ~~for its concurrence to ensure that the objectives established by, and based upon this work plan, the RSC are met.~~shall declare a preliminary date on which a completed draft Regional Standard and associated supporting documentation will be available for comment.

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

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

- A draft Regional Standard consistent with the SAR on which it was based.

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

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

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

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

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

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

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

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

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

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

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

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

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

Voting is an advisory to the Texas RE BOD. The voting results ~~will~~shall be composed of only the votes from the Registered Ballot Pool members who have responded within the 15-day

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voting period. Votes may be accompanied by comments explaining the vote, but are not required. All comments shall be responded to and posted to the Texas RE Website prior to going to the RSC or Texas RE BOD.

At least one (1) representative from ~~four (4) of the six (6) of the eight (8) Texas RE Segments~~Sectors must vote to constitute a quorum. Each ~~ERCOT Market Participant Segment~~Sector shall have ~~one (1) Segment Vote~~two (2) Sector votes.

The ~~representative of each Voting ERCOT Member shall receive an equal fraction of its Segment Vote~~“poll” taken on the violation risk factors and violation severity levels is “non-binding.” The ERCOT ISO shall have 1/4 vote—results of this poll will be reported to the Texas RE BOD and considered by Texas RE staff in forming its recommendations. The results of the poll are one element for the Texas RE BOD to consider when making a determination of whether to approve the compliance elements of the standards. The results of the poll do not determine whether these compliance elements are “approved.” In addition, if stakeholder comments submitted with the non-binding poll indicate specific improvements that would improve consensus, then the SDT, working with Texas RE staff, will revise the VRFs and VSLs to reflect stakeholder comments before the VRFs and VSLs are submitted to the Texas RE BOD.

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

If a draft Regional Standard receives 2/3 or greater ~~(4.83 segment votes=2/3 of 7.25)~~ affirmative votes during the 15-day voting period, the RSC will forward the Regional Standard to the Texas RE BOD for action (Step 7).

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

If a draft Regional Standard does not receive 2/3 or greater ~~(4.83 segment votes=2/3 of 7.25)~~ affirmative votes during the 15-day voting period, the RSC may:

- Revise the SAR on which the draft Regional Standard was based and remand the development work back to the original SDT or a newly appointed SDT. The resulting draft Regional Standard and/or implementation plan ~~will~~shall be posted for a second voting period. The RSC may require a second comment period prior to a second voting period. The second posting of the draft Regional Standard, implementation plan, and supporting documentation shall be within 60 days of the RSC action.
  - If a draft Regional Standard receives 2/3 or greater ~~(4.83 segment votes=2/3 of 7.25)~~ affirmative votes during the second voting period, the RSC will forward to the Texas RE BOD for action (Step 7).
  - If a draft Regional Standard does not receive 2/3 or greater ~~(4.83 =2/3 of 7.25)~~ affirmative votes during the second voting period, the RSC will refer the draft Regional Standard and implementation plan to the Texas RE BOD. The RSC may also submit an assessment, opinion, and recommendations to the Texas RE BOD (Step 7).

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- Direct the existing SDT to reconsider or modify certain aspects of the draft Regional Standard and/or implementation plan. The resulting draft Regional Standard and/or implementation plan ~~will~~shall be posted for a second voting period. The RSC may require a second comment period prior to the second voting period. The second posting of the draft Regional Standard, implementation plan, and supporting documentation shall be within 60 days of the RSC action.
  - If a draft Regional Standard receives 2/3 or greater ~~(4.83=2/3 of 7.25)~~ affirmative votes on the second voting period, the RSC will forward it to the Texas RE BOD for action (Step 7).
  - If a draft Regional Standard does not receive 2/3 or greater ~~(4.83=2.3 of 7.25)~~ affirmative votes on the second voting period, the RSC will refer the draft Regional Standard and implementation plan to the Texas RE BOD. The RSC may also submit an assessment, opinion, and recommendations to the Texas RE BOD (Step 7).
- ~~Recommend termination of all work on the development of the Regional Standard action under consideration and so notify the Texas RE BOD.~~

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

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

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

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

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

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

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

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

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

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

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

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

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

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## Appendix A – Stakeholder Representation

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

### **I. ~~Balanced Decision Making in Committees~~**

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

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

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

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

~~The Texas RE is a division of the Electric Reliability Council of Texas (ERCOT), a Texas non-profit corporation that is the Independent System Operator for the ERCOT Region. ERCOT is governed by a combination independent and balanced stakeholder board, as required by Section 39.151 of the Texas Public Utility Regulatory Act (PURA).~~ The Texas RE Board of Directors (BOD) includes the following individuals/directors:

- Five/Four independent individuals/directors who are unaffiliated with/independent of any electric/ERCOT region market participant and any NERC registered entity and are nominated and elected in accordance with the requirements and procedures specified in the Texas RE Bylaws;
- Two directors from different Sectors who are each approved/selected by the Texas RE Member Representatives Committee as its chair and vice chair;
- CEO of Texas RE;
- Chairman of the Public Utility Commission of Texas (PUCT) for three-year terms;
- Six electric market participant representatives from each of or another PUCT Commissioner designated by the following market segments: Independent Generators, Investor-Owned Utilities, Independent Power Marketers, Independent Retail Electric Providers, Municipally-Owned Utilities, and Cooperatives;
- Three Consumer representatives;
- CEO of ERCOT (as ex officio voting Director); and
- Chairman of the PUCT (as ex officio non-voting Director); and
- Texas Public Counsel from the Office of Public Utility Counsel (OPUC) or another employee of OPUC designated by Public Counsel (as as ex officio non-voting Director).

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~~Although the Texas RE BOD will have the final vote on proposed Regional Standards and Regional Variances, the Texas RE BOD will not have involvement in Regional Standard compliance and enforcement activities.~~

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

A Registered Ballot Body (RBB) will be comprised of representatives from ~~the Texas RE Segments (Independent Generators, Investor-Owned Utilities, Independent Power Marketers, Independent Retail Electric Providers, Municipally-Owned Utilities, Cooperatives, Consumers, and ERCOT ISO);~~ all the Sectors, to provide balanced decision-making on Regional Standards and Regional Variances. The RBB is eligible to vote on all proposed new or revised Regional Standards or Regional Variances. The RBB requires a quorum of at least one vote from at least two-thirds of the Sectors. At all meetings, each Sector shall have one (1) Sector vote, and each voting entity is entitled to only vote. Each voting entity participating in the vote, shall receive an equal fraction of its Sector's vote. A Registered Ballot Pool (RBP) will be formed for each proposed Regional Standard or Regional Variance and will be a subset of the RBB. The RBP will vote on a particular standard action.

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

### I. Principles

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

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

The standards development process has the following characteristics:

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

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

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

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

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

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

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

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

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

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

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

**b. Elements of a Regional Standard**

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

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

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

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

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	<p>complying with the standard, noting any specific additions or exceptions.</p> <p>If not applicable to the entire Texas RE area, then a clear identification of the portion of the BPS to which the standard applies. Any limitation on the applicability of the standard based on electric facility requirements should be described.</p>
<b>Effective Date and Status</b>	The effective date of the standard or, prior to approval of the standard, the proposed effective date.
<b>Purpose</b>	The purpose of the standard. The purpose shall explicitly state what outcome will be achieved or is expected by this standard.
<b>Requirement(s)</b>	Explicitly stated technical, performance, and preparedness requirements. Each requirement identifies what entity is responsible and what action is to be performed or what outcome is to be achieved. Each statement in the requirements section shall be a statement for which compliance is mandatory.
<b>Risk Factor(s)</b>	<p><del>The potential reliability significance of each requirement, designated as a High, Medium, or Lower Risk Factor in accordance with the criteria listed below:</del></p> <p><del>A High Risk Factor requirement (a) is one that, if violated, could directly cause or contribute to BPS instability, separation, or a cascading sequence of failures, or could place the BPS at an unacceptable risk of instability, separation, or cascading failures; or (b) is a requirement in a planning timeframe that, if violated, could, under emergency, abnormal, or restorative conditions anticipated by the preparations, directly cause or contribute to BPS instability, separation, or a cascading sequence of failures, or could place the BPS at an unacceptable risk of instability, separation, or cascading failures, or could hinder restoration to normal condition.</del></p> <p><del>A Medium Risk Factor requirement (a) is a requirement that, if violated, could directly affect the electrical state or the capability of the BPS, or the ability to effectively monitor and control the BPS, but is unlikely to lead to BPS instability, separation, or cascading failures; or (b) is a requirement in a planning timeframe that, if violated, could, under emergency, abnormal, or restorative conditions anticipated by the preparations, directly affect the electrical state or capability of the BPS, or the ability to effectively monitor, control, or restore the BPS, but is unlikely, under emergency, abnormal, or restoration conditions anticipated by the preparations, to lead to BPS instability, separation, or cascading failures, nor to hinder restoration to a normal condition.</del></p> <p><del>A Lower Risk Factor requirement is administrative in nature and (a) is a requirement that, if violated, would not be expected to affect the electrical state or capability of the BPS, or the ability to effectively monitor and control the BPS; or (b) is a requirement in a planning time frame that, if violated, would not, under the emergency, abnormal, or restorative conditions anticipated by the preparations, be expected to affect the electrical state or capability of the BPS, or the ability to effectively monitor, control, or restore the BPS.</del></p>
<b>Measure(s)</b>	Each requirement shall be addressed by one or more measures. Measures are used to assess performance and outcomes for the purpose of determining compliance with the requirements stated above. Each

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measure will identify to whom the measure applies and the expected level of performance or outcomes required demonstrating compliance. Each measure shall be tangible, practical, and as objective as is practical. It is important to realize that measures are proxies to assess required performance or outcomes. Achieving the measure should be a necessary and sufficient indicator that the requirement was met. Each measure shall clearly refer to the requirement(s) to which it applies.

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

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

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<p><b>Compliance Monitoring Process</b></p>	<p>Defines for each measure:</p> <ul style="list-style-type: none"> <li>• <del>The specific data or information that is required to measure performance or outcomes.</del></li> <li>• <del>The entity that is responsible for providing the data or information for measuring performance or outcomes.</del></li> <li>• <del>The process</del><b>Compliance Enforcement Authority:</b> <u>The entity that is responsible for evaluating data or information to assess performance or outcomes.</u></li> <li>• <b>Compliance Monitoring and Enforcement Processes:</b> <u>The processes</u> that will be used to evaluate data or information for the purpose of assessing performance or outcomes.</li> <li>• <del>The entity that is responsible for evaluating data or information to assess performance or outcomes.</del></li> <li>• <del>The time period in which performance or outcomes is measured, evaluated, and then reset.</del></li> <li>• <b>Data Retention:</b> Measurement data retention requirements and assignment of responsibility for data archiving.</li> <li>• <del>Violation severity levels.</del><b>Additional Compliance Information:</b> <u>Any other information related to assessing compliance such as the criteria or periodicity for filing specific reports.</u></li> </ul>
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The following compliance elements are developed by the SDT, working with Texas RE staff, but are not considered to be part of the standard. These elements will be posted for stakeholder comment concurrent with the associated requirements as early in the standard development process as possible. The standard drafting team, working with Texas RE staff will respond to all comments received. The drafting team, working with Texas RE staff may make modifications to the Violation Risk Factors (VRFs) and Violation Severity Levels (VSLs) based on stakeholder comments.

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

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

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

<p><b><u>Violation Risk Factors</u></b></p>	<p><u>The potential reliability significance of each requirement, designated as a High, Medium, or Lower Risk Factor in accordance with the criteria listed below:</u></p> <p><u>A High Risk Factor requirement (a) is one that, if violated, could directly cause or contribute to bulk power system instability, separation, or a cascading sequence of failures, or could place the bulk power system at an unacceptable risk of instability, separation, or cascading failures; or (b) is a requirement in a planning time frame that, if violated, could, under emergency, abnormal, or restorative conditions anticipated by the preparations, directly cause or contribute to bulk power system instability, separation, or a cascading sequence of failures, or could place the bulk power system at an unacceptable risk of instability, separation, or cascading failures, or could hinder restoration to a normal condition.</u></p> <p><u>A Medium Risk Factor requirement (a) is a requirement that, if violated, could directly affect the electrical state or the capability of the bulk power system, or the ability to effectively monitor and control the bulk power system, but is unlikely to lead to bulk power system instability, separation, or cascading failures; or (b) is a requirement in a planning time frame that, if violated, could, under emergency, abnormal, or restorative conditions anticipated by the preparations, directly affect the electrical state or capability of the bulk power system, or the ability to effectively monitor, control, or restore the bulk power system, but is unlikely, under emergency, abnormal, or restoration conditions anticipated by the preparations, to lead to bulk power system instability, separation, or cascading failures, nor to hinder restoration to a normal condition.</u></p> <p><u>A Lower Risk Factor requirement is administrative in nature and (a) is a requirement that, if violated, would not be expected to affect the electrical state or capability of the bulk power system, or the ability to effectively monitor and control the bulk power system; or (b) is a requirement in a planning time frame that, if violated, would not, under the emergency, abnormal, or restorative conditions anticipated by the preparations, be expected to affect the electrical state or capability of the bulk power system, or the ability to effectively monitor, control, or restore the bulk power system.</u></p>
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<p><b><u>Violation Severity Levels (VSLs)</u></b></p>	<p><u>Defines the degree to which compliance with a requirement was not achieved. Each requirement must have at least one VSL. While it is preferable to have four VSLs for each requirement, some requirements do not have multiple "degrees" of noncompliant performance and may have only one, two, or three VSLs.</u></p> <p><b><u>Lower Violation Severity Level:</u></b></p> <ul style="list-style-type: none"> <li><u>• Missing a minor element (or a small percentage) of the required performance</u></li> </ul> <p><b><u>Moderate Violation Severity Level:</u></b></p> <ul style="list-style-type: none"> <li><u>• Missing at least one significant element (or a moderate percentage) of the required performance.</u></li> </ul> <p><b><u>High Violation Severity Level:</u></b></p> <ul style="list-style-type: none"> <li><u>• Missing more than one significant element (or is missing a high percentage) of the required performance or is missing a single vital component.</u></li> </ul> <p><b><u>Severe Violation Severity Level:</u></b></p> <ul style="list-style-type: none"> <li><u>• Missing most or all of the significant elements (or a significant percentage) of the required performance.</u></li> </ul>
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**Table 3 – Supporting Information Elements**

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

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

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

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

**IV. Maintenance of Regional Standards**

The RSM shall ensure that each Regional Standard is reviewed at least once every five years from the effective date of the Standard or the latest revision to the Regional Standard, whichever is the later. The review process shall be conducted by soliciting comments from the

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stakeholders. If no changes are warranted, the RSM shall recommend to the Texas RE BOD that the Regional Standard be reaffirmed. If the review indicates a need to revise or delete a Regional Standard, a SAR shall be prepared and submitted in accordance with the standards development process contained in this process.

#### **V. Urgent Action**

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

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

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

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

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

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

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

The RSM ~~will~~shall assemble a team with the relevant expertise to address the clarification. The Interpretation Drafting Team (IDT) typically consists of members from the original SDT. The RSM ~~submits~~shall submit the proposed list of names of the IDT to the ~~ROS,RSC~~. The ~~ROS,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 ~~ComplianceExecutive~~ Officer. The Chief ~~ComplianceExecutive~~ Officer ~~is to~~shall assess if the inclusion of the interpretation lessens the measurability of the Regional Standard. ~~In addition the RSM will forward the interpretation to the ROS.~~ Barring receipt of an opinion from ~~either~~ the Chief ~~ComplianceExecutive~~ Officer ~~or ROS~~ within 21 days, that the interpretation lessens measurability or is not technically appropriate for the Regional Standard, ~~respectively~~, the RSM ~~will~~shall forward the interpretation to the RSC. The RSC ~~will~~shall determine if the interpretation is consistent with the Regional Standard. The RSM, on behalf of the RSC, ~~will~~shall forward the interpretation to the Texas RE BOD for informational purposes as being appended to the approved Regional Standard.

Note: In the event that the Chief ~~ComplianceExecutive~~ Officer determines that measurability is lessened, the Chief ~~ComplianceExecutive~~ Officer shall provide an explanation of his/her reasoning to the RSM and IDT for inclusion in a subsequent reversion. ~~The ROS shall in a similar manner provide an explanation of its reasoning if it determines that the interpretation makes the standard technically inappropriate.~~ In either case, the IDT and RSM will continue to re-circulate the interpretation as stated above.

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

## **VII. Appeals**

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

The burden of proof to show adverse effect shall be on the appellant. Appeals shall be made within 30 days of the date of the action purported to cause the adverse effect, except appeals

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for inaction, which may be made at any time. In all cases, the request for appeal must be made prior to the next step in the process.

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

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

### **Level 1 Appeal**

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

### **Level 2 Appeal**

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

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

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

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## Appendix C – Regional Standard Authorization Request Form

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

### Standard Authorization Request

#### Texas RE to complete

ID
Authorized for Posting
Authorized for Development

Title of Proposed Regional Standard:
Request Date:

#### SAR Originator Information

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

**Purpose** (Describe the purpose of the proposed regional reliability standard – what the standard will achieve in support of reliability.)

**Industry Need** (Provide a detailed statement justifying the need for the proposed regional reliability standard, along with any supporting documentation.)

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**Brief Description** (Describe the proposed regional reliability standard in sufficient detail to clearly define the scope in a manner that can be easily understood by others.)

**Reliability Functions**

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

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

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

**Reliability and Market Interface Principles**

**Applicable Reliability Principles** *(Check all boxes that apply.)*

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

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

Recognizing that reliability is a Common Attribute of a robust North American economy:

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

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

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**Related Standards**

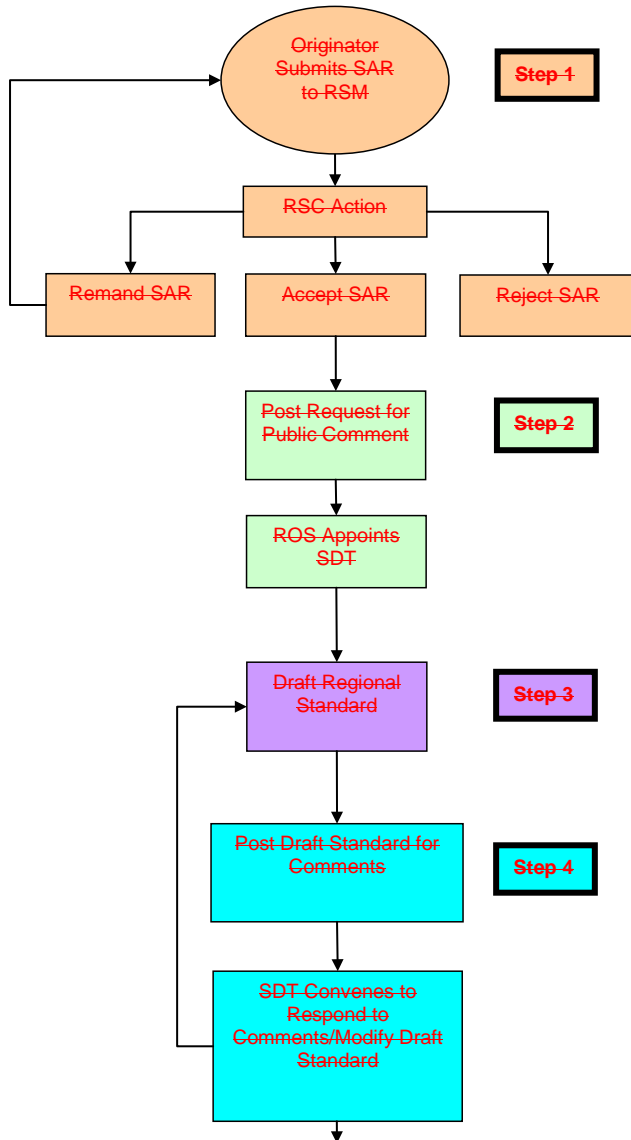
Standard No.	Explanation

**Related SARs**

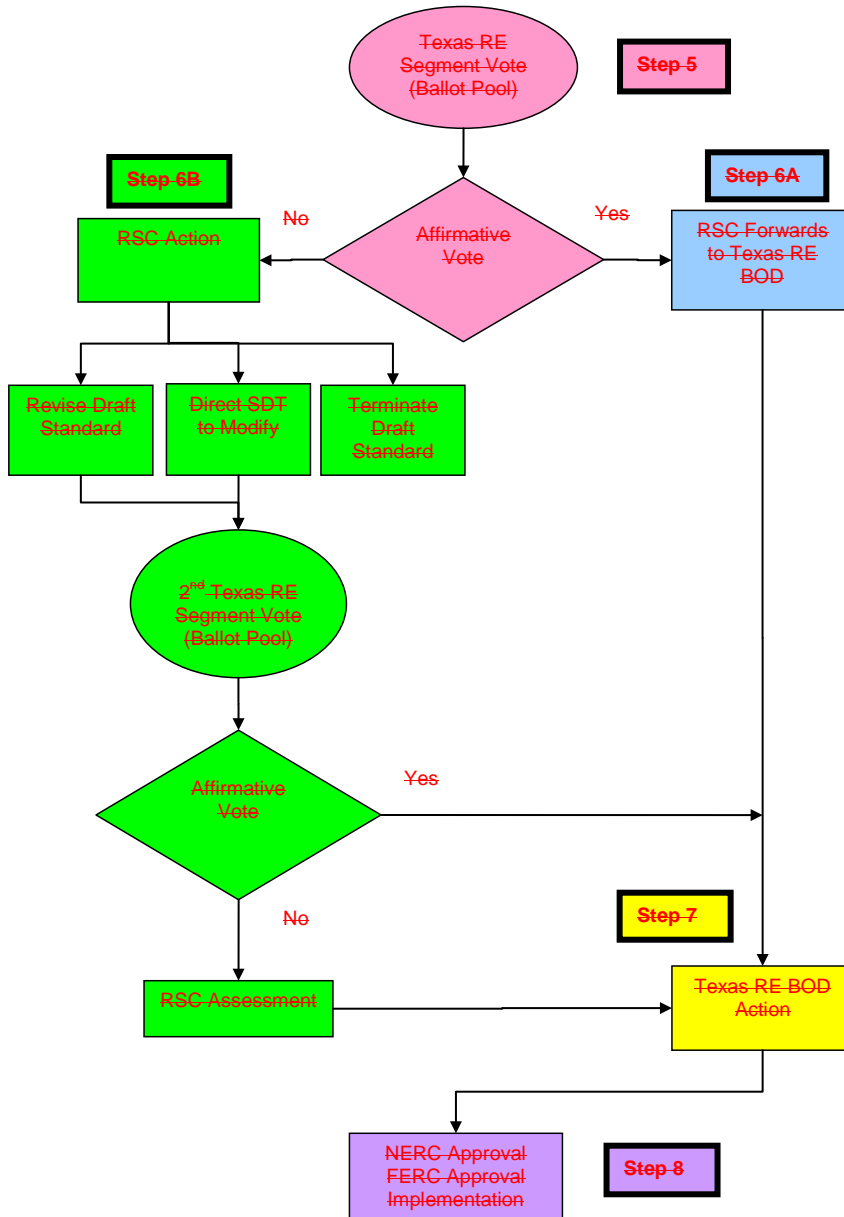
SAR ID	Explanation

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

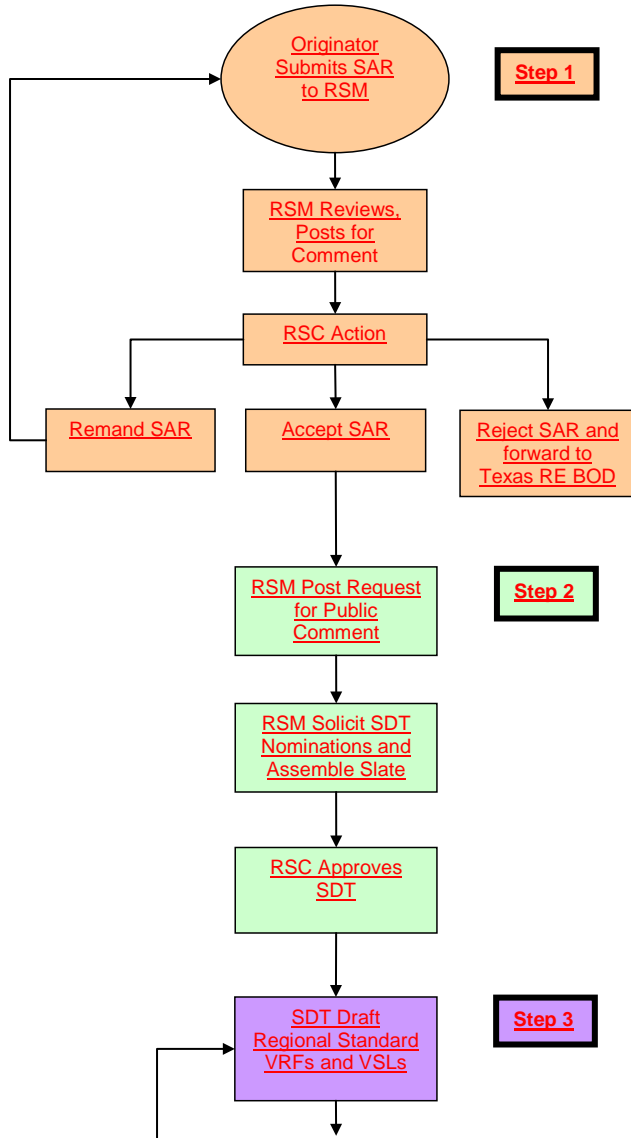


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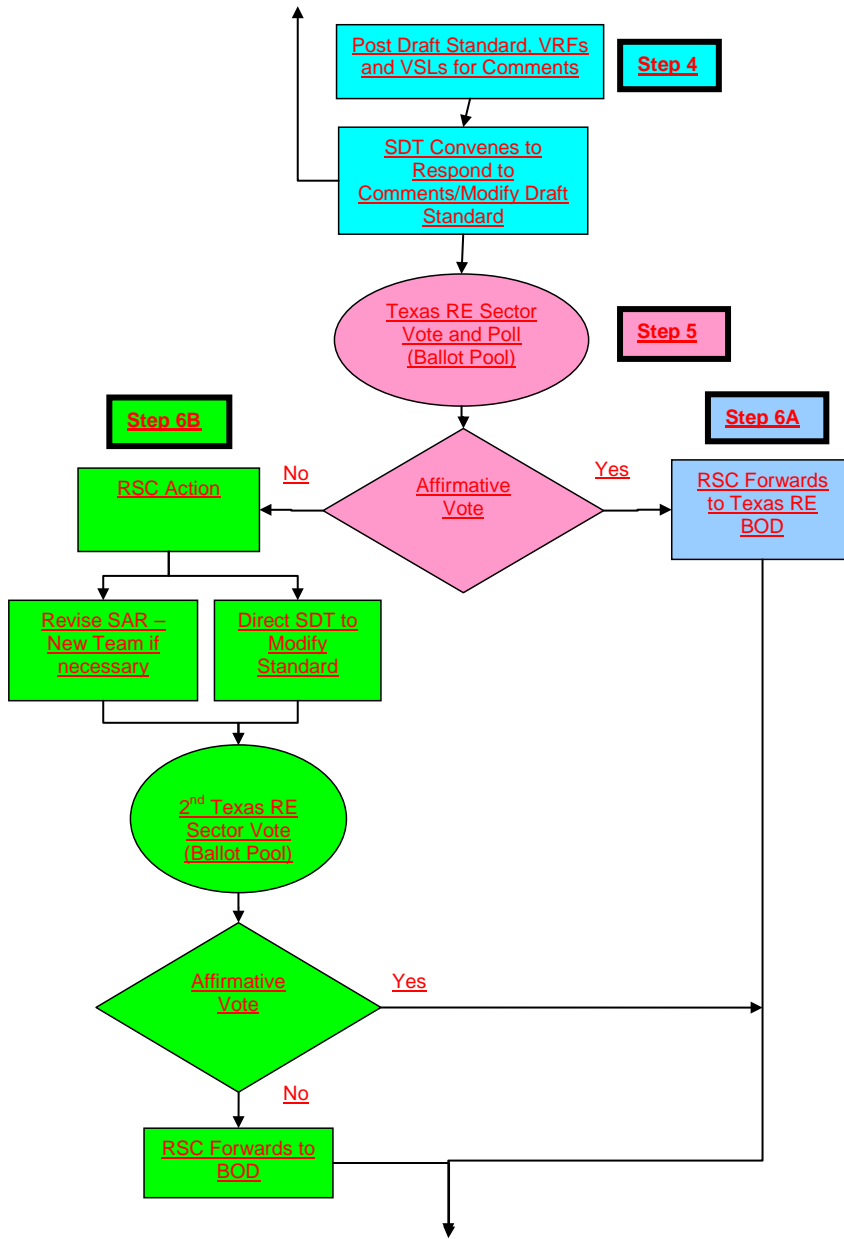


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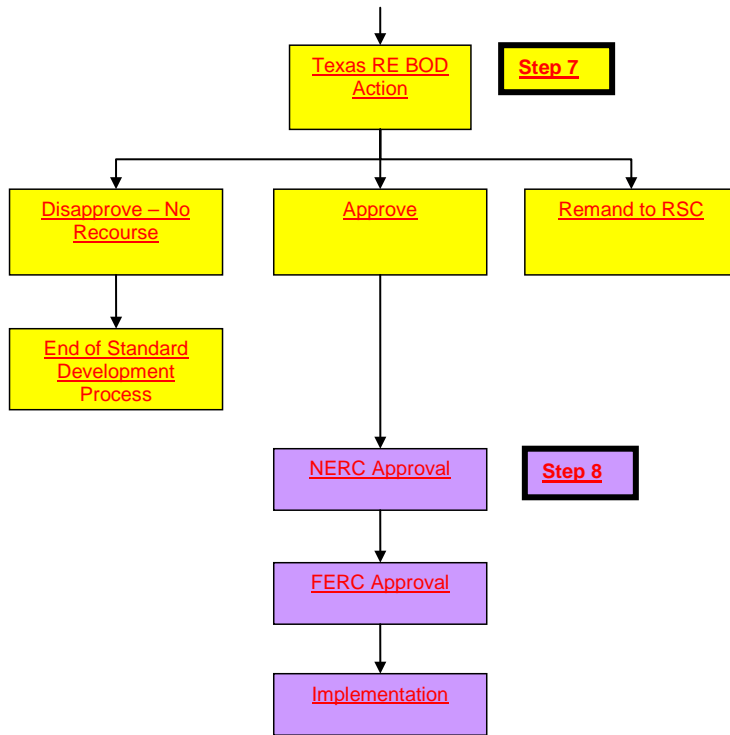




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## EXHIBIT D – COMPLIANCE MONITORING AND ENFORCEMENT PROGRAM

### 1.0 REGIONAL COMPLIANCE MONITORING AND ENFORCEMENT PROGRAM

#### 1.1 Obligations of Texas ~~Regional~~Reliability Entity

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

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

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

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

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

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

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

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

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

<sup>1</sup> Order 672, ¶511.

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

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

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

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

### 1.3 Other Decision-Making Bodies.

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

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## ATTACHMENT 1 TO EXHIBIT D

### TEXAS RE REGIONAL HEARING PROCESS

#### 1.0 Designation of Hearing Body

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

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

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

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

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

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

upon the Presiding Officer's or the Hearing Body's own motion or upon the motion of any Party.

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

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

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

## **3.0 Authorized Representatives**

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

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

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

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



Compliance Enforcement Authority in the course of determining an Alleged Violation has occurred and in determining the proposed sanction or penalty.

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

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

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

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

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

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

## **6.0 Conduct of Hearing**

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

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

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

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

## 7.0 Submission of Post-Hearing Briefs

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

## 8.0 Record of the Compliance Hearing

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

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

## 9.0 Timing of Written Recommendation to the ~~Chief Compliance Officer~~Board

The Hearing Body shall issue its written final recommendation to the ~~Chief Compliance Officer~~Board within thirty (30) days following the submission of post-hearing briefs, or, if

briefing is waived, following the conclusion of the hearing. The Hearing Body may in its discretion extend the time for the issuance of the written final recommendation to the ~~Chief Compliance Officer~~Board for up to an additional sixty (60) days. The written final recommendation shall state the opinion of the Hearing Body with respect to Alleged Violations of Reliability Standards and proposed penalties or sanctions at issue in the hearing. If the hearing involves a Registered Entity's Mitigation Proposal, the written final recommendation shall either propose acceptance or rejection of the Registered Entity's Mitigation Proposal. If the proposed Registered Entity's Mitigation Proposal is recommended for rejection, the Hearing Body may specify the provisions of an alternative plan of mitigation that the Registered Entity should be required to implement. The written final recommendation shall explain the reasons for the Hearing Body's conclusions and cite the testimony and exhibits relied on by the Hearing Body in reaching its opinions. Copies of the written final recommendation shall be served electronically and by certified mail on the Registered Entity and on the Compliance Enforcement Authority's designated representative at the time it is issued to the ~~Chief Compliance Officer~~Board.

#### **9.1 Written Decision by the ~~Chief Compliance Officer~~Board**

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

#### **9.2 NERC Appeal Process**

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

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

A Registered Entity that disputes a Remedial Action Directive issued by a Compliance Enforcement Authority may request an expedited hearing. To facilitate the expedited hearing, the Compliance Enforcement Authority may request that the Hearing Body

convene for purposes of the expedited hearing process. The following expedited procedures shall be followed:

- (1) The Registered Entity shall file its written response the Remedial Action Directive and request for emergency hearing with the Hearing Body, with a copy to the Compliance Enforcement Authority's designated representative within two (2) business days after receipt of the Remedial Action Directive. The Hearing Body may appoint a Presiding Officer to conduct all proceedings under this Section 10.0, except for the issuance of a final recommendation to the ~~Chief Compliance Officer~~Board.
- (2) The Hearing Body shall be convened for purposes of a prehearing, and if requested, for interim relief, not less than two (2) nor more than five (5) business days after receipt of the Registered Entity's request for a hearing.
- (3) The Hearing Body shall conduct a hearing on the matter, in person or by teleconference, within thirty (30) days after the Hearing Body is convened. At the hearing, the Compliance Enforcement Authority shall explain why the Remedial Action Directive should be complied with, and the Registered Entity shall explain why the Remedial Action Directive is not necessary or should be modified.
- (4) The Hearing Body shall issue a summary written recommendation to the ~~Chief Compliance Officer~~Board within twenty (20) business days following the hearing, stating whether the Registered Entity should or should not be required to comply with the Remedial Action Directive and identifying any modifications to the directive that it finds appropriate.
- (5) The ~~Chief Compliance Officer~~Board shall issue a summary written decision within ten (10) business days following the Hearing Body's issuance of its summary written recommendation, stating whether the Registered Entity shall or shall not be required to comply with the Remedial Action Directive and identifying any modifications to the directive that it finds appropriate.
- (6) If the ~~Chief Compliance Officer's~~Board's summary written decision concludes that the Registered Entity is required to comply with the Remedial Action Directive or any modification to such directive (including adjustments to the timetable for implementation), the Registered Entity shall be required to begin implementing the Remedial Action Directive upon receipt of the summary written decision, if it has not already implemented the Remedial Action Directive.
- (7) Within thirty (30) days following issuance of its summary written decision, the ~~Chief Compliance Officer~~Board shall issue a full written decision regarding the Remedial Action Directive to the requirements of Section 9.0, above, that may be appealed consistent with Section 9.2.
- (8) This Section 10.0 provides procedures for the expeditious determination of the propriety of a contested Remedial Action Directive. Nothing in this Section shall be read to impair the Compliance Enforcement Authority's authority to issue a Notice of Alleged Violation and proposed sanction on alleged violations of standards addressed by a Remedial Action Directive or on other alleged violations occurring contemporaneously with the Remedial Action Directive or at

any other time using the non-expedited procedures of this Attachment 1 or Attachment 2— Rules of Procedure.

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

### 1.1 Applicability, Definitions and Interpretation

#### 1.1.1 Procedure Governed

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

#### 1.1.2 Deviations and Exceptions

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

- (14) P.U.C. PROC. R. § 22.263(d); and
  - (15) P.U.C. PROC. R. §§ 22.281-22.284.
- (d) For purposes of this Attachment 2—Rules of Procedure, the following shall supplement the terms of a Chapter 22 Rule, as specified:
- (1) P.U.C. PROC. R. § 22.31. The following subsection (d) shall be added:
    - “(d) The Hearing Body Clerk shall designate each proceeding brought under these rules as a docket.”
  - (2) P.U.C. PROC. R. § 22.72(e). The following sentence shall be added at the end of this subsection:
    - “A party or its authorized representative shall also provide in its signature block one or more electronic mail addresses to which service may be made.”
  - (3) P.U.C. PROC. R. § 22.74(b). The following sentence shall be added at the end of this subsection:
    - “(b) . . . Service may be made by electronic mail to the email address included in a signature block of a party or its authorized representative.
- \* \* \*
- “(4) Service by email shall be complete upon transmission of the communication from the electronic mail server of the serving party.”
- (e) All proceedings filed under these rules shall be conducted under the Commission’s Chapter 22 Procedural Rules, as modified herein, but may not be referred to the State Office of Administrative Hearings.

**1.1.3 Standards for Discretion**

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

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

- (d) Balanced Decision-Making - Decisions should be based solely on the facts and arguments of record in a proceeding and by individuals who satisfy the Compliance Enforcement Authority's conflict of interest policy.
- (e) Impartiality - Persons appearing before the Hearing Body should not be subject to discriminatory or preferential treatment. Registered Entities should be treated consistently unless a reasonable basis is shown in any particular proceeding to depart from prior rulings, decisions or orders.
- (f) Expedition - Proceedings shall be brought to a conclusion as swiftly as is possible in keeping with the other goals of the hearing process.

#### **1.1.4 Interpretation**

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

#### **1.1.5 Definitions**

- (a) Unless otherwise defined, as used in these Rules of Procedure (i) definitions in Section 1.1 of the NERC Compliance Monitoring and Enforcement Program shall apply, and (ii) the following terms shall have the following meanings:

~~"Board" means the Board of Directors of Texas Reliability Entity.~~

"Bulk-Power System," for the purposes of these Rules of Procedure, has the meaning set forth in 16 U.S.C. §824o(a)(1).

"Chapter 22" or "Commission Procedural Rules" shall mean the Chapter 22 Procedural Rules of the Commission, 16 TEX. ADMIN. CODE ch. 22., and be cited as "P.U.C. PROC. R. § []."

~~"Chief Compliance Officer" means the Chief Executive Officer of the Texas Regional Entity.~~

"Commission" means the Public Utility Commission of Texas.

"Compliance Enforcement Authority Clerk," as designated by the Compliance Enforcement Authority.

"Compliance Enforcement Authority" means the Regional Entity, by and through its Chief ~~Compliance~~Executive Officer.

"Compliance Enforcement Authority's area of responsibility" means the Texas ~~Regional~~Reliability Entity's corporate region.

"Critical Energy Infrastructure Information" means specific engineering, vulnerability, or detailed design information about proposed or existing critical infrastructure that: (i) relates details about the production,



generation, transportation, transmission, or distribution of energy; (ii) could be useful to a person in planning an attack on critical infrastructure; and (iii) does not simply give the location of the critical infrastructure.

“Critical infrastructure” means existing and proposed systems and assets, whether physical or virtual, the incapacity or destruction of which would negatively affect security, economic security, public health or safety, or any combination of those matters.

“Cybersecurity Incident” means a malicious act or suspicious event that disrupts, or was an attempt to disrupt, the operation of those programmable electronic devices and communications networks including hardware, software, and data that are essential to the Reliable Operation of the Bulk-Power System.

“ERO” means the Electric Reliability Organization, currently the North American Electric Reliability Corporation, or any successor organization, certified by FERC pursuant to 18 C.F.R. §39.3.

“FERC” means the Federal Energy Regulatory Commission.

“Filing Clerk” or “Hearing Body Clerk” means the Central Records filing clerk of the Public Utility Commission of Texas.

“Hearing Body” means the Public Utility Commission of Texas.

“Mitigation Plan” means an action plan developed by a Registered Entity to (i) correct a violation of a Reliability Standard and (ii) prevent reoccurrence of the violation. A Mitigation Plan is required when a Registered Entity violates a Reliability Standard as determined by any means including Compliance Enforcement Authority Decision, settlement agreement, or otherwise.

“Party” means any Person who is allowed or required to participate in a proceeding conducted pursuant to these Rules of Procedure. The term “Party” as used herein shall include the members of the Compliance Staff of the Compliance Enforcement Authority that participate in a proceeding.

“Penalty” as used herein includes all penalties and sanctions that may be imposed pursuant to 16 U.S.C. §824o-1 and applicable regulations, including but not limited to a monetary or non-monetary penalty; a limitation on an activity, function, operation or other appropriate sanction; or the addition of the Registered Entity to a reliability watch list composed of major violators. Penalties must be within the range set forth in the NERC *ERO Sanction Guidelines* approved by FERC pursuant to 18 C.F.R. Section 39.7(g)(2), and shall bear a reasonable relation to the seriousness of a Registered Entity’s violation and take into consideration any timely efforts made by the Registered Entity to remedy the violation.

“Person” means any individual, partnership, corporation, limited liability company, governmental body, association, joint stock company, public trust, organized group of persons, whether incorporated or not, or any other legal entity.

“Presiding Officer” or “Hearing Examiner” means an individual employed or contracted by the Hearing Body and designated by the Hearing Body to preside over hearings conducted pursuant to these Rules of Procedure.

“North American Electric Reliability Council” or “NERC” means North American Electric Reliability Corporation.

“Registered Entity” means each user, owner and operator of the Bulk-Power System within the United States that is required to register with the Regional Entity pursuant to 18 C.F.R. § 39.2.

“Regional Entity” means Texas Regional Reliability Entity or Texas RE, ~~a division of Electric Reliability Council of Texas.~~

“Reliable Operation” has the meaning set forth in Section 215 of the Federal Power Act.

“Reliability Standards” means standards approved by FERC pursuant to Section 215 of the Federal Power Act and 18 C.F.R. Section 39.5, as such standards are authorized and in effect from time to time.

“Remedial Action Directive” means an action (other than a penalty or sanction) required that (1) is to bring a Registered Entity into compliance with a Reliability Standard or to avoid a Reliability Standard violation, and (2) is immediately necessary to protect the reliability of the Bulk Power System from an imminent threat of harm.

“Respondent” means the Registered Entity who is the subject of the Notice of Alleged Violation or contested Mitigation Plan that is the basis for the proceeding, whichever is applicable.

“Staff” or “Compliance Staff” means individuals employed or contracted by the Compliance Enforcement Authority who have the authority to make initial determinations of Registered Entities’ compliance with or violation of the Reliability Standards and associated Penalties and Mitigation Plans.

“Technical Advisor” means any Staff member, Hearing Body employee, third-party contractor, or industry stakeholder who satisfies the Compliance Enforcement Authority’s conflict of interest policy and is selected to assist in a proceeding by providing technical advice to the Presiding Officer and/or the Hearing Body.

- (b) For purposes of this Attachment 2--Rules of Procedure and in application to any proceeding brought under these rules, the following terms shall be substituted for the term used in a Chapter 22 rule:

“Administrative law judge” shall mean and refer to the defined term “Presiding Officer.”

“Central records” shall mean “Hearing Body Clerk.”

“Final order” shall mean “final recommendation.”

“Proposal for decision” shall mean “draft recommendation.”

“Public utility” shall mean “party.”

- (c) If a term is defined in this Attachment 2—Rules of Procedure and in Chapter 22, the meaning expressed herein shall prevail.

### **1.1.6 Interventions Are Not Permitted**

The Respondent(s) and Compliance Staff shall be Parties to the proceeding. Unless otherwise authorized by FERC, no other Persons shall be permitted to intervene or otherwise become a Party to the proceeding.

### **1.1.7. Proceedings Open to the Public**

All hearings, oral arguments, and meetings of the Hearing Body shall be open to the public, and every notice, ruling, order or any other issuance of the Presiding Officer or Hearing Body, and any transcript, made in any proceeding shall be publicly released unless a Party has requested that it be kept confidential in accordance with Texas law, and the Presiding Officer or Hearing Body determines that the information should not be released publicly.

### **1.1.8 Numbering and Docketing System**

The Staff of the Compliance Enforcement Authority shall maintain a system of numbering proceedings before they are sent to the Hearing Body for a hearing under these procedures. A numbered proceeding shall be created within the Compliance Enforcement Authority upon the issuance of a notice of Alleged Violation. Unless NERC provides a different docketing system that will be used uniformly by the Compliance Enforcement Authority, proceeding numbers shall be assigned sequentially beginning with a two digit number that relates to the last two digits of the year in which the docket is initiated, followed by a dash ("-"), followed by the letters "[RE]", followed by a dash ("-"), followed by a four digit number that will be "0001" on January 1 of each calendar year and ascend sequentially until December 31 of the same calendar year. If the proceeding is not settled and becomes a contested matter before the Hearing Body, the Hearing Body's numbering and docketing system shall govern the tracking of such filings while under the Hearing Body's administration.

## **1.2 Hold Harmless**

A condition of a Party invoking these Rules of Procedure and participating in a hearing is that the Party agrees that the Compliance Enforcement Authority, including without limitation its members, board of directors or trustees, compliance committee, any other committees or subcommittees, Staff, contracted employees, attorneys and experts (outside or in-house), Hearing Body members, Presiding Officers and Technical Advisors, shall not be liable, and shall be held harmless against the consequences of, or any action or inaction arising out of, the hearing process, or of any agreement reached in resolution of a dispute or any failure to reach agreement as a result of a proceeding. This "hold harmless" provision does not extend to matters constituting gross negligence, intentional misconduct, or breach of confidentiality.

## **1.3 Initiation of the Hearing Process**

Except when contesting a Remedial Action Directive pursuant to section 1.5 of these Rules of Procedure, a Registered Entity may file a response or complaint with the Compliance Enforcement Authority and the Filing Clerk requesting a hearing if:

- (a) The Registered Entity contests a Notice of Alleged Violation as to the existence or scope of the alleged violation, the proposed Penalty, or both; or
- (b) The Registered Entity contests the Compliance Enforcement Authority's rejection of Registered Entity's Mitigation Proposal in whole or in part.

A Registered Entity must file its hearing request within forty (40) days after (i) the Registered Entity files its response to the notice of Alleged Violation; or (ii) the Compliance Staff submits to the Registered Entity its statement identifying a disagreement with the Registered Entity's Mitigation Proposal, whichever is applicable. If the Registered Entity does not file a hearing request within the time period set forth in this Section, then the Registered Entity will be deemed to have agreed and waived any objection to the proposed Penalty, the Alleged Violation or the Compliance Staff's stated position on the Registered Entity's Mitigation Proposal, whichever is applicable.

Either a notice of Alleged Violation issued to a Registered Entity or a Staff statement setting forth its disagreement with a Registered Entity's Mitigation Proposal shall clearly state that the Registered Entity has the option to contest the Alleged Violation, proposed Penalty, or both, or the Compliance Staff's position on the Registered Entity's Mitigation Proposal.

A Registered Entity shall attach to a request for hearing whichever of the following are applicable:

- (a) The Registered Entity's Self-Reporting of a violation;
- (b) The Notice of Alleged Violation and the Registered Entity's response thereto; or
- (c) The Registered Entity's Mitigation Proposal and the Compliance Staff's statement identifying its disagreement with the Registered Entity's Mitigation Proposal.

#### **1.4 General Hearing Procedure**

Except as otherwise specified in this Attachment 2—Rules of Procedure, the procedures and timelines set forth in Chapter 22 shall govern the conduct of a hearing arising under these rules.

##### **1.4.1 Hearing Body**

The Hearing Body, consisting of a quorum of the Commission, shall hear all proceedings brought under these Rules of Procedure, unless the Commission elects to delegate all or part of the proceeding to a Presiding Officer who is a member of the Commission Staff. The Hearing Body is vested with the exclusive authority to issue a final recommendation to the ~~Chief Compliance Officer~~Board for the resolution of the issue(s) presented. The following procedures shall also apply:

- (a) The Hearing Body or any individual member thereof may, but is not required to, attend any prehearing conference, status hearing or evidentiary hearing, or to submit questions to the Presiding Officer to submit to a Party or any witness at any such hearing. No more than one member of the Hearing Body may be present for any prehearing

conference, status hearing, or evidentiary hearing unless the Hearing Body has complied with the Open Meetings requirements of Texas law.

- (b) The Hearing Body shall resolve the issue(s) in every hearing through the issuance of a final recommendation to the ~~Chief—Compliance Officer~~Board. In issuing a final recommendation to the ~~Chief Compliance Officer~~Board, the Hearing Body shall consider the Presiding Officer's draft recommendation but shall have the authority to reject, modify or approve the draft recommendation in whole or in part in issuing its final recommendation.

#### **1.4.2 Technical Advisor**

The Presiding Officer or the Hearing Body may elect to use one or more Technical Advisors to assist in any proceeding. Such an election may be made at any time during the course of a proceeding. Any Staff member who serves as a Technical Advisor shall not have been involved in or consulted at any time in regard to any Compliance Staff investigation, initial determination of Alleged Violation or Penalty, or assessment of a Registered Entity's proposed Mitigation Plan that resulted in the proceeding in which technical advice would be rendered, and shall not otherwise participate in the proceeding on which such technical advice would be rendered.

If the Presiding Officer or Hearing Body uses a Technical Advisor to assist in any hearing, the Presiding Officer or Hearing Body shall disclose the identity, employment history and professional affiliations of the Technical Advisor within two (2) days of the Technical Advisor's assignment to the proceeding, and Parties to the hearing may raise objections to the Technical Advisor's participation within 10 business days of disclosure.

#### **1.5 Initiation of Remedial Action Directive Hearing**

Staff may issue a Remedial Action Directive to a Registered Entity at any time, including during any proceeding related to an alleged violation of a Reliability Standard. The Compliance Enforcement Authority will notify NERC within two (2) days after its Staff issues a Remedial Action Directive.

The Registered Entity may contest the Remedial Action Directive in accordance with these Rules of Procedure and Delegation Agreement, Exhibit D, Attachment 1, §10, by filing a written notice with the Compliance Enforcement Authority that states that the Registered Entity contests the Remedial Action Directive and that the Registered Entity requests a Remedial Action Directive hearing. The Registered Entity shall attach a copy of the Remedial Action Directive to its written notice. The Registered Entity must provide such notice within two (2) business days following issuance of the Remedial Action Directive. If the Registered Entity does not give written notice to the Compliance Enforcement Authority within the required time period, the Registered Entity shall be deemed to have waived its right to contest the Remedial Action Directive.

The Registered Entity shall simultaneously file with the Hearing Body Clerk a copy of the notice that it is contesting the Remedial Action Directive.

The Hearing Body Clerk shall assign a docket number, and issue a Notice of Hearing that sets forth the date, time and place at which the hearing will convene.

## Exhibit E — Funding

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### 1. Scope of activities funded through the ERO funding mechanism

The Texas ~~Regional Entity Division of Electric~~ Reliability Council of Texas Entity, Inc. ("Texas RE") shall include in its annual budget submission to the North American Electric Reliability Corporation ("NERC") amounts for costs it will incur in support of delegated activities and activities that are in furtherance of NERC's responsibilities as the ERO under the Act, as specified in the NERC Rules . These activities shall include:

- Reliability Standard Development (Section 300)
- Compliance Enforcement (Section 400)
- Organization Registration and Certification (Section 500)
- ~~Reliability Readiness Evaluation and Improvement (Section 700)~~
- Reliability Assessment and Performance Analysis (Section 800) (including necessary data gathering activities)
- Training and Education (Section 900)
- Situational Awareness and Infrastructure Security (Section 1000)

### 2. Allocation of Costs

Texas RE shall allocate its dues, fees, and other charges for its activities pursuant to the delegation agreement among all load-serving entities on the basis of net-energy-for load, unless a different method or methods of allocating and calculating such dues, fees, or charges has been submitted to and approved by NERC and the Commission, in accordance with Section 8(b) of the delegation agreement. Texas RE shall submit to NERC annually at the same time it submits its budget request a list of the load-serving entities within its geographic boundaries and their proportionate net-energy-for load or such other data or information as is necessary to allocate and calculate Texas RE's dues, fees, or charges under any other method of allocation or calculation that is to be used.

### 3. Collection of Funding

(a) NERC, Texas RE, and Electric Reliability Council of Texas, Inc. ("ERCOT") have agreed that ERCOT shall act as the billing agent on behalf of NERC to bill and collect assessments for the costs of activities under the Act from load-serving entities, ERCOT Qualified Scheduling Entities ("QSEs"), or such other entities as agreed by NERC, Texas RE, and ERCOT. ERCOT and Texas RE agree that ERCOT shall: (i) issue all invoices to load-serving entities, QSEs, or other agreed entities in a prompt and timely manner after receipt from NERC of the information needed to issue the invoice; (ii) exercise commercially reasonable efforts to collect invoices that are not paid as of the due date(s); and (iii) transfer all funds collected to NERC quarterly, in a timely manner. Texas RE shall confirm that ERCOT complies with these obligations, and shall notify NERC promptly of any compliance failures.

NERC shall submit invoices on a quarterly basis to ERCOT covering the NERC and Texas RE budgets approved for collection for the ERCOT region. ~~Within~~ No later than the later of (i) the first day of the calendar quarter and (ii) ten (10) business days after receiving this quarterly invoice, ERCOT will electronically ~~transfer~~ transmit to NERC the amount reflected in the invoice, in immediately available funds, unless ERCOT has been unable to collect and does not reasonably believe it can collect such amount from load-serving entities, QSEs, or other agreed entities, after exercise of commercially reasonable efforts. On the same day as ERCOT makes each electronic

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transfer of funds to NERC, ERCOT ~~or Texas RE~~ will send an e-mail to the Chief Financial Officer of NERC and the Chief Executive Officer of Texas RE either (i) confirming that the full invoiced amount has been electronically transmitted to NERC or (ii) stating that ERCOT is unable to collect the full amount of the NERC invoice and reasonably believes that it will not be able to collect the full amount of the NERC invoice from load-serving entities, QSEs, or other agreed entities after exercise of commercially reasonable efforts and confirming the amount that has been transmitted to NERC. In the event ERCOT is unable to transfer to NERC the full invoiced amount, ERCOT shall also send to NERC and Texas RE a listing of any load-serving entity, QSE or other agreed entity that has not fully paid its load ratio share and an itemization of the collections that ERCOT received, by entity and amount. ERCOT will maintain a detailed list of the entities from which payments were collected and the amount collected from each entity.

ERCOT and Texas RE agree that they shall not in any way use their position as billing or collection agent for NERC to attempt to influence NERC's policies or decisions on matters relating to adoption of reliability standards (including regional standards and differences), administration of the compliance monitoring and enforcement matters, determination and imposition of penalties and sanctions, budgeting matters including review and approval of Texas RE's budgets and business plans, or any other NERC decisions, including by issuing invoices, engaging in collection activities or transferring funds collected to NERC in an untimely manner or other than in accordance with this agreement. ERCOT's confirmation of its agreements as set forth in this Paragraph 3 is attached hereto as Attachment 1.

NERC shall pursue any non-payments and shall request assistance from applicable governmental authorities as necessary to secure collection.

(b) Upon approval of the annual funding requirements by applicable governmental authorities, NERC shall fund Texas RE's costs identified in Section 1 of this Exhibit E in four equal quarterly payments, within ten (10) business days after receiving the remittance from ERCOT.

#### 4. Application of Penalties

All penalty monies received by Texas RE, other than penalty monies ~~it receives~~received from ~~its an operational function or division or~~ affiliated ~~operational~~ entity, ~~ERCOT, of Texas RE~~, shall be applied as a general offset to the entity's budget requirements for U.S.-related activities under this Agreement for the subsequent fiscal year. Funds from financial penalties shall not be directly applied to any program maintained by the investigating entity. Any penalty monies received ~~by Texas RE~~ from ~~its an operational function or division or~~ affiliated ~~operational~~ entity, ~~ERCOT, of Texas RE~~ shall be transmitted to or retained by NERC and shall be used by NERC as a general offset to NERC's budget for its activities as the ERO under the Act for the following year. Provided, however, that the allocation between NERC and Texas RE of any penalty monies paid by ERCOT after the effective date of this Agreement in respect of violations of reliability standards occurring before the effective date of this Agreement, shall be agreed to by NERC and Texas RE in a separate document.

#### 5. Description of Non-Statutory Activities

In addition to its delegated activities and activities that are in furtherance of NERC's responsibilities as the ERO under the Act, as specified in Section 1 of this Exhibit E (such functions and activities referred to in this Section 5 as "statutory activities"), Texas RE ~~shall~~will also continue to perform the following other functions and activities (referred to in this Section 5 as "non-statutory activities") at least through December 31, 2010:

- Investigation of market participants' compliance with the ERCOT Protocols and Operating Guides which contain the Regional criteria for planning and operating reliable interconnected bulk electrical systems in the ERCOT region, and assistance or cooperation in enforcement of violations ("ERCOT Compliance Activities"), so long as the ERCOT Compliance Activities do not conflict with the statutory activities, including: (i)

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maintaining a record of all material occurrences of non-compliance with ERCOT procedures and tracking recurrence of such material occurrences of non-compliance; (ii) promptly providing information to and responding to questions from market participants to allow the market participant to understand and respond to alleged material occurrences of non-compliance with ERCOT procedures; (iii) maintaining a record of the resolutions of such material occurrences of non-compliance and of corrective actions taken by the market participants in each instance; and (iv) informing the Public Utility Commission of Texas Staff immediately if the material occurrence of non-compliance is not resolved.

- Development of policies, processes, standards, and procedures to implement the ERCOT Compliance Activities.

~~ERCOT, of which Texas RE is an independent division, operates as an independent system operator under the jurisdiction of the Public Utility Commission of Texas.~~

Texas RE shall employ the following methods and procedures to (i) keep its funding mechanisms for its statutory activities separate from its funding mechanisms for its non-statutory activities, and (ii) record the costs and expense it incurs in the performance of its non-statutory functions separately from the costs and expense it incurs in the performance of its statutory functions:

- A. Texas RE segregates the funding for its statutory activities and non-statutory activities by recording the funding transactions in separate and distinct general ledger accounts, in accordance with Generally Accepted Accounting Principles.
- B. Texas RE utilizes and must maintain a time recording and expense management system under which -employee time and expenses incurred in the conduct of non-statutory activities will be tracked to ensure that they are not funded by NERC remittances intended for the funding of statutory activities.
- C. Texas RE has adopted a detailed system of Account Codes, Department Codes and Activity Codes which are used in recording expenses. The Activity Codes are specific to statutory activities and non-statutory activities. The Texas RE Activity Codes are modeled on the NERC Functional Categories. Texas RE -shall use Department Codes that are unique to Texas RE- to record all costs and expenses incurred by Texas RE for statutory activities and non-statutory activities.
- D. Texas RE shall use Activity Codes to appropriately track its costs for statutory activities separately from its costs for non-statutory activities.
- E. Where employee time or an expense affects multiple activities, Texas RE will use an accurate basis of allocation of the time or expense between the activities being performed based on specific metrics, such as time tracking, data observations or total cost input. Total cost input relates the portion of the expense to the total expense to establish an appropriate method to allocate.

Texas RE shall provide its budget for such non-statutory activities to NERC at the same time that Texas RE submits its annual budget request to NERC pursuant to Section 1. Texas RE's budget for non-statutory activities that is provided to NERC shall contain a detailed list of Texas RE 's non-statutory activities Texas RE agrees that no costs of non-statutory activities are to be included in the calculation of Texas RE dues, fees, and other charges for its statutory activities pursuant to this Agreement.

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Attachment 1 to Exhibit E

Confirmation of Electric Reliability Council of Texas, Inc.

Electric Reliability Council of Texas, Inc. (ERCOT), the Independent System Operator (ISO) for the ERCOT region, has agreed to act as the billing agent on behalf of NERC to bill and collect assessments for the costs of activities under Section 215(c) of the Federal Power Act from load-serving entities, Qualified Scheduling Entities (QSEs), or such other entities as agreed by North American Electric Reliability Corporation (NERC), Texas ~~Regional Reliability~~ Entity, Inc. (Texas RE), and ERCOT. ERCOT agrees that ERCOT shall: (i) issue all invoices to load-serving entities, QSEs, or other agreed entities in a prompt and timely manner after receipt from NERC of the information needed to issue the invoice; (ii) exercise commercially reasonable efforts to collect invoices that are not paid as of the due date(s); and (iii) transfer all funds collected to NERC on a quarterly basis, in a timely manner.

On a quarterly basis, NERC will send ERCOT an invoice covering the NERC and Texas RE budgets approved for collection for the ERCOT region. ~~Within~~ No later than the later of (i) the first day of the calendar quarter and (ii) ten (10) business days after receiving this invoice, ERCOT will electronically ~~transfer~~ transmit to NERC, in immediately available funds, the amount reflected in the NERC invoice, unless ERCOT has been unable to collect and does not reasonably believe it will be able to collect this amount from load-serving entities, QSEs, or other agreed entities after exercise of commercially reasonable efforts. On the same day as ERCOT makes its electronic transfer of funds to NERC, ERCOT will send an e-mail to the Chief Financial Officer of NERC, copying the Texas RE Chief ~~Compliance Executive~~ Officer ~~and the Texas RE financial analyst,~~ either (i) confirming that the full invoiced amount has been electronically transmitted to NERC; or, (ii) stating that ERCOT is unable to collect the full amount of the NERC invoice and reasonably believes that it will not be able to collect the full amount of the NERC invoice from load-serving entities, QSEs, or other agreed entities after exercising commercially reasonable efforts and confirming the amount that has been transmitted to NERC. In the event ERCOT is unable to transfer to NERC the full invoice amount, ERCOT shall also send to NERC and Texas RE a listing of any load-serving entity, QSE, or other agreed entity that has not paid its load ratio share and an itemization of the collections that ERCOT received by entity and amount. ERCOT shall maintain a detailed list of the entities from which payments are collected and the amount collected from each entity.

ERCOT agrees that it shall not in any way use its position as billing or collection agent for NERC to attempt to influence NERC's policies or decisions on matters relating to adoption of reliability standards (including regional standards and differences), administration of the compliance monitoring and enforcement matters, determination and imposition of penalties and sanctions, budgeting matters including review and approval of Texas RE's budgets and business plans, or any other NERC decisions, including by issuing invoices, engaging in collection activities or transferring funds collected to NERC in an untimely manner or other than in accordance with this agreement.

Electric Reliability Council of Texas, Inc.

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

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

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

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## Exhibit E — Funding

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### 1. Scope of activities funded through the ERO funding mechanism

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- Reliability Standard Development (Section 300)
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### 2. Allocation of Costs

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- D. Texas RE shall use Activity Codes to appropriately track its costs for statutory activities separately from its costs for non-statutory activities.
- E. Where employee time or an expense affects multiple activities, Texas RE will use an accurate basis of allocation of the time or expense between the activities being performed based on specific metrics, such as time tracking, data observations or total cost input. Total cost input relates the portion of the expense to the total expense to establish an appropriate method to allocate.

Texas RE shall provide its budget for such non-statutory activities to NERC at the same time that Texas RE submits its annual budget request to NERC pursuant to Section 1. Texas RE's budget for non-statutory activities that is provided to NERC shall contain a detailed list of Texas RE 's non-statutory activities Texas RE agrees that no costs of non-statutory activities are to be included in the calculation of Texas RE dues, fees, and other charges for its statutory activities pursuant to this Agreement.

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On a quarterly basis, NERC will send ERCOT an invoice covering the NERC and Texas RE budgets approved for collection for the ERCOT region. ~~Within~~ No later than the later of (i) the first day of the calendar quarter and (ii) ten (10) business days after receiving this invoice, ERCOT will electronically ~~transfer~~ transmit to NERC, in immediately available funds, the amount reflected in the NERC invoice, unless ERCOT has been unable to collect and does not reasonably believe it will be able to collect this amount from load-serving entities, QSEs, or other agreed entities after exercise of commercially reasonable efforts. On the same day as ERCOT makes its electronic transfer of funds to NERC, ERCOT will send an e-mail to the Chief Financial Officer of NERC, copying the Texas RE Chief ~~Compliance Executive~~ Officer ~~and the Texas RE financial analyst,~~ either (i) confirming that the full invoiced amount has been electronically transmitted to NERC; or, (ii) stating that ERCOT is unable to collect the full amount of the NERC invoice and reasonably believes that it will not be able to collect the full amount of the NERC invoice from load-serving entities, QSEs, or other agreed entities after exercising commercially reasonable efforts and confirming the amount that has been transmitted to NERC. In the event ERCOT is unable to transfer to NERC the full invoice amount, ERCOT shall also send to NERC and Texas RE a listing of any load-serving entity, QSE, or other agreed entity that has not paid its load ratio share and an itemization of the collections that ERCOT received by entity and amount. ERCOT shall maintain a detailed list of the entities from which payments are collected and the amount collected from each entity.

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Electric Reliability Council of Texas, Inc.

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

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

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

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**Amendments to Delegation Agreements with Florida Reliability Coordinating Council (FRCC), Southwest Power Pool (SPP), and SERC Reliability Corporation (SERC)**

**Action Required**

Subject to SERC Reliability Corporation (SERC), Florida Reliability Coordinating Council (FRCC), and Southwest Power Pool Regional Entity (SPP RE) obtaining all requisite approvals from their respective Boards,

- (1) approve a proposed SERC-FRCC agreement and a proposed SERC-SPP agreement to permit SERC to be the Compliance Enforcement Authority (CEA) for certain activities in FRCC and SPP;
- (2) approve amendments to the SERC, FRCC and SPP RE Delegation Agreements with NERC; and
- (3) approve amendments to the SERC Bylaws;

all to be filed at the Federal Energy Regulatory Commission (FERC) for approval. As a result of approval of the SERC-FRCC and the SERC-SPP agreements (item 1 above) and the related amendments to the SERC, FRCC and SPP Delegation Agreements and the SERC Bylaws, SERC will become the CEA for registered entity functions performed by FRCC and SPP in their respective Regions. This should eliminate current concerns with respect to any perception of lack of independence in the performance of compliance monitoring and enforcement functions by FRCC and SPP over reliability functions for which they are registered entities within their respective Regions.

Under the SERC-FRCC and SERC-SPP Agreements, SERC will be responsible for performing the full range of CMEP activities with respect to the FRCC and SPP registered functions. SERC and FRCC have agreed that SERC will be paid \$20,000 in 2010 (subject to proration based on the date of FERC approval) for these services, and SERC and SPP have agreed that SERC will be paid \$40,000 in 2010, which includes a scheduled audit of SPP, Inc. for these services. For subsequent years, SERC will develop annual budgets, including appropriate allocations of its General and Administrative (G&A) costs, for its CEA services to FRCC and SPP, which will be reviewed and approved by FRCC, SPP and NERC, and ultimately by FERC, in the annual business planning and budgeting process. The approved SERC budgets for its CEA services to FRCC and SPP will then be included in the assessments to load-serving entities and designees (LSE) in the FRCC and SPP Regions, respectively, for the budget year. The SERC-FRCC and SERC-SPP Agreements also provide for a true-up of the budget to SERC's actual costs (including an appropriate allocation of G&A costs) following the budget year, with the resulting over- or under-recoveries of SERC's costs to be reflected in the assessments to LSEs in the FRCC and SPP Regions, respectively, in the second year following the budget year. The Initial Terms of the SERC-FRCC and SERC-SPP Agreements end on December 31, 2012, but the agreements are subject to automatic renewal for successive three-year renewal terms unless either party gives timely notice to terminate.

Board approval is also requested for an unrelated amendment to the NERC-FRCC Delegation Agreement and an unrelated amendment to the FRCC Bylaws, as discussed below. These amendments would also be filed with FERC for approval.

All required approvals of the SERC, FRCC and/or SPP Boards must be obtained prior to filing the new and amended agreements and the amended bylaws at FERC. SERC, SPP RE and FRCC have authorized NERC to present the new and amended agreements and exhibits thereto and the amended bylaws to the NERC Board with this proviso and each Regional Entity has a plan to obtain the requisite approvals from its Board (to the extent not already obtained.)

In addition, in accordance with the NERC Rules of Procedure, an audit of SPP RE is scheduled for May 2010. As part of the filing with FERC, NERC will request prompt approval to allow the audit to go forward as scheduled with SERC as the CEA. In the alternative, NERC will request that the audit be postponed until after FERC approves these agreements, so that once FERC approval is obtained SERC may proceed as the CEA for the SPP audit.

The complete proposed SERC-FRCC and SERC-SPP agreements are included with this agenda item. The proposed amendments to the SERC, FRCC, and SPP Delegation Agreements with NERC, and to the SERC and FRCC Bylaws, are described below.

### **Identification of Amendments to the NERC-SERC, NERC-FRCC, and NERC-SPP Delegation Agreements and to the SERC and FRCC Bylaws**

#### **Amendments to NERC-SERC Delegation Agreement for SERC to be CEA for FRCC's and SPP's registered entity functions**

1. The following new Section 6(k) is being added to the NERC-SERC Delegation Agreement:

(k) Cross Regional Compliance Monitoring. SERC may also perform compliance monitoring and enforcement activities outside of the Region shown on **Exhibit A**, on behalf of NERC and/or other Regional Entities, such activities to be undertaken pursuant to a contract between SERC and each such other Regional Entity that is approved by NERC and by the Commission.

2. In **Exhibit A**, the following statement is being added:

SERC may also perform compliance monitoring and enforcement activities outside of the Region, on behalf of NERC and/or other Regional Entities, such activities to be undertaken pursuant to a contract between the Regional Entities that is approved by the Board Executive Committee, NERC and the Federal Energy Regulatory Commission. .

3. In **Exhibit E**, the following new Section 6 is being added:

6. Costs associated with Cross-Regional Compliance Monitoring. The costs associated with any Cross-Regional Compliance Monitoring performed by SERC pursuant to section 6(k) of this Agreement with respect to registered functions of another Regional Entity are to be funded by payments from the Regional Entity contracting with SERC for such services, in accordance with the contract between SERC and the other Regional Entity. Where such a contract has been entered

into, SERC will include a description of the resources it has budgeted to perform such services, and its estimated costs (including an appropriate allocation of SERC's General and Administrative costs) to perform such services, in each budget year, in SERC's annual business plan and budget that is submitted to NERC and to the Commission for approval.

4. The SERC Bylaws (included in **Exhibit B** to the Delegation Agreement) are being amended to add new Section 4.3:

4.3 Other Statutory Activities. The Corporation may also perform statutory functions outside of the Region, on behalf of NERC or other Regional Entities, such activities to be undertaken pursuant to a contract that is approved by the Board Executive Committee.

### **Amendments to the NERC-FRCC Delegation Agreement for SERC to be CEA for FRCC's registered entity functions**

1. In **Exhibit A** to the NERC-FRCC Delegation Agreement, the following statement is being added:

Within the FRCC Region, compliance monitoring and enforcement functions with respect to reliability functions for which the FRCC is a registered entity are performed by SERC Reliability Corporation (SERC) pursuant to a contract between FRCC and SERC dated as of (date).<sup>[1]</sup>

2. In **Exhibit D**, Section 3.0 is being amended as follows (this amendment was approved by the FRCC Board of Directors in June 2009):

The FRCC has engaged ~~NERC~~ the SERC Reliability Corporation (SERC) to oversee the compliance monitoring and enforcement responsibility as related to FRCC's compliance with Reliability Standards requirements that are applicable to the functions for which FRCC is a Registered Entity.

3. In **Exhibit E**, Section 4, Application of Penalties, is being amended as follows:

All penalty monies received by FRCC ~~other than penalty monies received from an operational function or division of affiliated entity of FRCC~~ shall be applied as a general offset to the entity's budget requirements for U.S. related activities under this Agreement for the subsequent fiscal year. Funds from financial penalties shall not be directly applied to any program maintained by the investigating entity. ~~Any penalty monies received from an operational function or division of affiliated entity of FRCC shall be transmitted to or retained by NERC as a general offset to NERC's budget for its activities as the ERO under the Act for the following year.~~

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<sup>1</sup> The effective dates of the amendments to the NERC delegation agreements with SERC, FRCC and SPP, and of the SERC-FRCC and SERC-SPP agreements, would be after the date of FERC approval, and may be specified by FERC in its order as FERC has done at times in the past.

With respect to the above amendment to Section 4 of Exhibit E (which is also being made to the SPP Delegation Agreement, as described below), FERC has previously directed that the delegation agreements should provide that penalties incurred by a Regional Entity or its operational division or affiliate for violations of reliability standards should be paid to NERC, rather than to the Regional Entity, to be used as a general offset to NERC's budget in a future year. With respect to penalties imposed by SERC acting as the CEA for the FRCC (and SPP) registered functions, however, SERC, FRCC and SPP believe that since the assessments to load-serving entities (LSE) in the FRCC and SPP regions will include the costs for SERC to act as CEA, any penalties imposed by SERC on the FRCC and SPP registered functions should be received by FRCC or SPP, as applicable, to be used as a general offset to its budget for a future year. This treatment would ultimately benefit the LSEs in the Region who paid the costs of the SERC CEA activities through their assessments. Additionally, penalties imposed by SERC acting as CEA for the FRCC and SPP registered functions presents a different situation than if FRCC or SPP were fining itself and then using the penalty collections to reduce its own budget. Since this represents a change from a previously-articulated FERC policy directive, it will be highlighted in the FERC filing and will of course specifically be subject to FERC approval.

4. Section 8(k) of the NERC-FRCC Delegation Agreement is being amended as follows (this amendment is necessary for consistency with the amendment to **Exhibit E**, Section 4, described immediately above):

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

#### **Other Amendments to the NERC-FRCC Delegation Agreement and Bylaws**

1. Exhibit B - FRCC Bylaws - FRCC is seeking approval from its Board to amend Section 5.4 of its Bylaws to clarify the role of the FRCC Compliance Committee; the FRCC Board is scheduled to act on February 10, 2010. The amendment will clarify that the Compliance Committee's role is as an advisor to the Board or the FRCC RE when the Board or the RE seeks guidance. The FRCC RE is responsible for the operations of the RE and effective implementation of the CMEP. This amendment should eliminate a concern raised by FERC in a previous order with respect to the involvement of the FRCC Compliance Committee in FRCC CMEP activities. Following is the text of the proposed amendment to Section 5.4 of the FRCC Bylaws:

**Section 5.4 Compliance Committee.** Each Voting Member may appoint one (1) representative, empowered to vote on behalf of the Voting Member, to serve on the Compliance Committee. A representative may, if unable to attend a meeting, designate, in writing, an alternate to act on behalf of the representative. Quorum and Voting Rights shall be as defined in Sections 5.7 and 5.8. The Compliance Committee shall report directly to the Board and ~~is charged with responsibility for the development and implementation of programs to ensure compliance for both FRCC Regional Reliability Standards and NERC Reliability Standards~~ serves as an advisor to the Board and the FRCC compliance staff on technical aspects of the Compliance Monitoring and Enforcement Program

(CMEP) for which the Board or the FRCC compliance staff seeks guidance. The Compliance Committee is not to be confused with the Board Compliance Committee which is primarily a “hearing body” and has a different voting structure as outlined in Exhibit D of the Delegation Agreement between the North American Electric Reliability Corporation and FRCC.

2. Exhibit D section 1.2 - FRCC's Board has approved changes that enable FRCC to use the NERC uniform CMEP and Hearing Procedures, with no FRCC-specific deviations as is currently the case. This action was approved by the FRCC Board of Directors on December 15, 2009. FRCC would like to achieve more consistency with the other regions by using the same CMEP. By adopting the uniform CMEP, FRCC not only eliminates the "non-substantive" differences between the FRCC CMEP and the uniform CMEP (e.g., treatment of "business days" in counting time periods), but also eliminates the provisions that were in the FRCC CMEP regarding the activities of the FRCC Compliance Committee and Compliance Advisory Panels (see item 2 immediately above). Specifically, the existing text of Section 1.2, “Deviations from the NERC Compliance Monitoring and Enforcement Program,” of Exhibit D will be deleted and replaced with the following text: “Florida Reliability Coordinating Council has no deviations.”

### **Amendments to the NERC-SPP Delegation Agreement for SERC to be CEA for SPP’s registered entity functions**

1. In **Exhibit A** to the NERC-SPP Delegation Agreement, the following statement is being added:

Within the SPP Region, compliance monitoring and enforcement functions with respect to reliability functions for which SPP is the registered entity are performed by SERC Reliability Corporation (SERC) pursuant to a contract between SPP and SERC dated as of (date).

2. In **Exhibit D**, Section 3.0, the current text (“SPP does not use any other decision-making bodies for its Compliance Monitoring and Enforcement Program.”) is being deleted and replaced with:

SPP RE has engaged the SERC Reliability Corporation (SERC) to oversee the compliance monitoring and enforcement responsibility within the SPP RE Region as related to SPP’s compliance with Reliability Standards requirements that are applicable to the functions for which SPP is a Registered Entity.

3. In **Exhibit E**, Section 4, Application of Penalties, is being amended as follows:

~~All penalty monies received by SPP RE other than penalty monies received from an operational function or division of affiliated entity of SPP shall be applied as a general offset to the entity’s budget requirements for U.S.-related activities under this Agreement for the subsequent fiscal year. Funds from financial penalties shall not be directly applied to any program maintained by the investigating entity. Any penalty monies received from an operational function or division of affiliated entity of SPP RE shall be transmitted to or retained by NERC as a~~

~~general offset to NERC's budget for its activities as the ERO under the Act for the following year.~~

The basis for this amendment is explained above in the discussion of the amendments to the NERC-FRCC Delegation Agreement.

4. Section 8(k) of the NERC-SPP Delegation Agreement is being amended as follows (this amendment is necessary for consistency with the amendment to **Exhibit E**, Sec. 4, described immediately above):

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

**AGREEMENT BETWEEN  
SERC RELIABILITY CORPORATION and  
FLORIDA RELIABILITY COORDINATING COUNCIL  
CONCERNING COMPLIANCE MONITORING AND ENFORCEMENT  
OF FRCC REGISTERED FUNCTIONS**

THIS AGREEMENT (“Agreement”) made effective as of \_\_\_\_\_ (the “Effective Date”), between the SERC Reliability Corporation (“SERC”), an organization established to develop and enforce Reliability Standards, and Florida Reliability Coordinating Council (“FRCC”), an organization established to develop and enforce Reliability Standards within the geographic boundaries identified on **Exhibit A** to the “Amended and Restated Delegation Agreement Between the North American Electric Reliability Corporation and Florida Reliability Coordinating Council, Inc.” (referred to herein as the “FRCC Region”), and for other purposes. SERC and FRCC may be individually referred to herein as “Party” or collectively as “Parties.”

**RECITALS**

I. SERC is a party to a certain “Amended and Restated Delegation Agreement Between the North American Electric Reliability Corporation and SERC Reliability Corporation” (the “NERC-SERC Delegation Agreement”), which has been approved by the Federal Energy Regulatory Commission (“Commission”) and which states in Section 6 thereof, in pertinent part, that SERC shall enforce Reliability Standards (including Regional Reliability Standards) through a compliance enforcement program set forth in Exhibit D to the NERC-SERC Delegation Agreement.

II. FRCC is a party to a certain “Amended and Restated Delegation Agreement Between the North American Electric Reliability Corporation and Florida Reliability Coordinating Council, Inc.” (the “NERC-FRCC Delegation Agreement”), which has been approved by the Commission and which states in Section 6 thereof, in pertinent part, that FRCC shall enforce Reliability Standards (including Regional Reliability Standards) within the FRCC Region through

a compliance enforcement program set forth in Exhibit D to the NERC-FRCC Delegation Agreement.

III. FRCC, through its Member Services Division (“FRCC Member Services Division”), currently performs the Reliability Coordinator (“RC”) and Planning Authority (“PA”) functions (as “Reliability Coordinator” and “Planning Authority” are defined in the NERC *Glossary of Terms Used in Reliability Standards*) for the FRCC Region, and is registered on the NERC *Compliance Registry* as the RC and PA for the FRCC Region. In this Agreement, the RC and PA functions are sometimes referred to as the “FRCC Registered Functions,” and FRCC Member Services Division is referred to as the “Registered Entity” with respect to its performance of the FRCC Registered Functions.

IV. Notwithstanding the provisions of Section 6 of the NERC-FRCC Delegation Agreement, the Commission has ruled that FRCC’s performance of compliance monitoring and enforcement functions with respect to compliance with Reliability Standards by FRCC’s registered reliability functions results in a lack of independence in compliance monitoring and enforcement for FRCC operational functions. The Commission therefore directed NERC and FRCC to remedy this deficiency.

V. In light of the Commission’s directive, SERC and FRCC agree, subject to approval by NERC and the Commission, that SERC should assume responsibility for the Compliance Monitoring and Enforcement Program (“CMEP”) with respect to the FRCC Registered Functions, and that the terms on which responsibility for the CMEP with respect to the FRCC Registered Functions shall be transferred to and performed by SERC should be memorialized in this Agreement.

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained herein, the Parties, intending to be bound, agree as follows:



**1. Responsibilities of SERC.**

(a) Beginning on the Effective Date, SERC will perform all responsibilities of the Compliance Enforcement Authority (“CEA”) as specified in the NERC uniform CMEP, Appendix 4C to the NERC Rules of Procedure (“ROP”), as amended from time to time (the “NERC Uniform CMEP”), with respect to the FRCC Registered Functions.

(b) Without limiting the scope of SERC’s responsibilities as stated in Subsection 1(a), SERC agrees to perform the following activities:

(1) Administer all compliance processes in Section 3.0 of the NERC Uniform CMEP with respect to the FRCC Registered Functions, in accordance with the NERC Annual CMEP Implementation Plan required by Section 4.1 of the NERC Uniform CMEP for each year. If at any time, FRCC’s registration status changes, SERC will monitor the Registered Functions in effect at that time.

(2) Lead all compliance audits and compliance violation investigations (“CVI”) of the FRCC Registered Functions.

(i) SERC shall conduct a scheduled compliance audit of the FRCC Registered Functions in accordance with the frequency established by NERC in the CMEP. As FRCC is currently registered, SERC will audit the RC function at least once every three (3) years and shall conduct a scheduled compliance audit of the PA function, at least once every six (6) years.

(ii) Scheduled compliance audits of the FRCC Registered Functions shall include all actively-monitored standards in accordance with the NERC Annual CMEP Implementation Plan.

(iii) As required by the NERC ROP, all compliance audits of the FRCC RC function shall be conducted on site. Spot checks or other compliance monitoring methods may be completed off site.

(3) Determine if notices of Alleged Violations and proposed penalties or sanctions should be issued to FRCC Member Services Division with respect to the FRCC Registered Functions, and calculate or determine any proposed penalties or sanctions in accordance with the NERC *Sanction Guidelines*.

(4) Administer processes as specified in Section 5.0 of the NERC Uniform CMEP with respect to any notices of Alleged Violations and proposed penalties or sanctions issued with respect to the FRCC Registered Functions.

(5) Review and approve proposed Mitigation Plans submitted by a FRCC Registered Function, and monitor implementation and completion of approved Mitigation Plans, in accordance with Section 6.0 of the NERC Uniform CMEP.

(6) Determine if Remedial Action Directives should be issued to FRCC Member Services Division with respect to a FRCC Registered Function, and issue such Remedial Action Directives if determined to be necessary, in accordance with Section 7.0 of the NERC Uniform CMEP.

(7) Conduct settlement negotiations for any violations of Reliability Standards discovered by SERC per this agreement, if requested by FRCC Member Services Division, in accordance with Section 5.4 of the NERC Uniform CMEP.

(8) Provide due process hearings for the FRCC Registered Functions with respect to notices of Alleged Violations, proposed penalties and sanctions, disputed Mitigation Plans, and disputed Remedial Action Directives, as requested by FRCC Member Services Division, in accordance with Attachment 2, Hearing Procedures, to the NERC Uniform CMEP.

(c) Compliance audit teams, CVI teams, and review teams for self-certifications, spot check responses, periodic data submittals, self-reports, exception reports and complaints submitted by or relating to a FRCC Registered Function shall not include any employees of FRCC, but may include employees of other Regional Entities, NERC and Commission staff

members. Provided, that in accordance with Section 2(c) of this Agreement, SERC may request and obtain technical advice and assistance from FRCC employees, acting in a consulting or advisory capacity, who are not employed in a FRCC Registered Function.

## **2. Responsibilities of FRCC.**

(a) As the Registered Entity for the FRCC Registered Functions, FRCC Member Services Division shall establish and designate to SERC a primary compliance contact for each FRCC Registered Function, in accordance with Section 2.0 of the NERC Uniform CMEP.

(b) As the Registered Entity for the FRCC Registered Functions, FRCC Member Services Division shall timely respond to and comply with all notices, requests for information and schedules issued by SERC as the CEA pursuant to the NERC Uniform CMEP.

(c) FRCC shall provide subject-matter experts (“SME”) as requested by SERC to provide technical advice and assistance to SERC, in SERC’s discretion, in carrying out the CMEP with respect to the FRCC Registered Functions. A SME provided by FRCC may be an employee of FRCC or an industry volunteer, provided, that no SME provided by FRCC may be employed by FRCC in a FRCC Registered Function. The Parties agree that SMEs provided by FRCC shall only be used by SERC in a consulting or advisory capacity to provide expertise and advice on technical matters pertaining to the FRCC Registered Functions, shall have no decision-making responsibilities with respect to any compliance processes or compliance enforcement matters, and shall not be a member of any compliance audit team, CVI team, or review team for self-certifications, spot check responses, periodic data submittals, self-reports, exception reports or complaints submitted by or relating to a FRCC Registered Function.

(d) FRCC Regional Entity Division shall reimburse SERC the actual, reasonable costs of SERC’s performance of the CMEP with respect to the FRCC Registered Functions, including an appropriate allocation of SERC’s General and Administrative costs, in accordance with Section 5 of this Agreement.

(e) Except as provided in this Agreement, FRCC Regional Entity Division shall continue to perform all CMEP responsibilities in the FRCC Region in accordance with the NERC-FRCC Delegation Agreement.

**3. Disposition of Penalties Paid by FRCC with respect to a FRCC Registered Function.**

Any penalties to be paid by FRCC Member Services Division for violations of Reliability Standards by a FRCC Registered Function, shall reduce the portion of the FRCC ERO Assessment paid by load-serving entities and designees ("LSE") in the FRCC Region for the subsequent fiscal year, in accordance with the *NERC Accounting, Financial Statement and Budgetary Treatment of Penalties Imposed and Received for Violations of Reliability Standards*.

**4. Transfer of Responsibilities for CMEP Activities With Respect To FRCC Registered Functions That Are In Progress on the Effective Date.**

SERC shall assume full responsibility, as the CEA, for completion of all compliance processes with respect to the FRCC Registered Functions that are in progress as of the Effective Date, including without limiting the foregoing, (i) completion and issuance of reports of compliance audits and CVI of the FRCC Registered Functions, (ii) completion of review of, and issuance of any findings or reports concerning, any self-certifications, spot-checks, periodic data submittals, self-reports, exception reports or complaints, submitted by or pertaining to a FRCC Registered Function, (iii) determination of whether any notice of Alleged Violations and/or proposed penalties or sanctions should be issued to a FRCC Registered Function as a result of any such compliance processes, (iv) processing of any notices of Alleged Violations and/or proposed penalties or sanctions that were issued before the Effective Date, or are issued after the Effective Date as the result of compliance processes conducted before the Effective Date, and (v) review, approval and monitoring of implementation and completion of any Mitigation Plans required of a FRCC Registered Function as the result of compliance processes conducted before the Effective Date.

**5. Compensation to SERC for Performance of CMEP With Respect to the FRCC Registered Functions.**

(a) Compensation for 2010.

For the period between the Effective Date of this Agreement and December 31, 2010, SERC shall invoice FRCC the amount of \$5000 per quarter (pro-rated for any partial quarter) on or about the first day of each calendar quarter. The first invoice shall also include the amount for the partial quarter, if any between the Effective Date and the date of the first invoice. FRCC shall remit to SERC the amount of each invoice by check or electronic funds transfer to SERC within twenty (20) business days following the date of each invoice.

(b) Compensation for Years Subsequent to 2010.

(i) In its annual Business Plans and Budgets submitted to NERC and the Commission for the year 2011 and subsequent years within the term of this Agreement, SERC shall identify a portion of its CMEP budget, including an appropriate allocation of SERC's General and Administrative Costs (the "FRCC Registered Functions CMEP Budget"), that is attributable to the performance of the CMEP with respect to the FRCC Registered Functions. SERC's allocation of resources to the performance of its obligations under this Agreement and the corresponding budgeted amount shall be subject to approval by NERC and by the Commission as part of their overall approval of SERC's business plan and budget. The amount of SERC's proposed FRCC Registered Functions CMEP Budget shall also be included in FRCC's business plan and budget that is submitted to NERC and to the Commission for approval. The amount of the FRCC Registered Functions CMEP Budget for each year, as approved by the Commission, (i) shall be excluded from the calculation of SERC's assessments to LSEs in the SERC Region for each such year, and (ii) shall be included in the calculation of FRCC's assessments to LSEs in the FRCC Region for each such year. SERC shall invoice

FRCC Regional Entity Division for the amount of the FRCC Registered Functions CMEP Budget in four equal quarterly amounts during each year, with the invoices to be issued by SERC to FRCC on or about January 1, April 1, July 1 and October 1 and to be paid by FRCC by check or electronic funds transfer to SERC within twenty (20) business days following the date of the invoice.

(c) Reconciliation of Costs.

No later than 90 days after the end of a budget-year, SERC shall provide to FRCC a statement of actual expenses incurred by SERC in the fulfillment of SERC's responsibilities under this agreement for that budget-year. The statement shall disclose the actual costs of labor, travel and meetings, and all other direct costs, as well as SERC's allocation of its actual General and Administrative Costs. The statement shall summarize the reasons for any variances as compared to the budget amount. SERC shall provide supporting documentation for the final statement upon request by FRCC. The total variance for the concluded budget year shall be incorporated as a compensating adjustment in both the SERC and FRCC budgets in the second year following the budget-year and, as approved by NERC and the Commission, reflected in the quarterly invoices from SERC to FRCC and quarterly payments by FRCC to SERC in such year.

(d) Supplemental Invoice.

If during any budget-year, including 2010, the actual cost of performing SERC's responsibilities under this agreement exceeds the budgeted funding by more than ten (10) percent of SERC's budgeted cash reserve (for example as may be necessitated by the conduct of a compliance violation investigation or hearing), SERC shall have the right to issue supplemental invoices to FRCC to recover in full all actual costs incurred above the budgeted funding. Upon receipt of such a supplemental invoice, FRCC shall

pay the full amount of the invoice by check or electronic funds transfer to SERC within sixty (60) days.

**6. Term and Termination.**

(a) Initial Term. The Initial Term of this Agreement shall be from the Effective Date of this Agreement to December 31, 2012.

(b) Renewal Terms. This Agreement shall automatically renew, without any notice or other action by either Party, at the end of the Initial Term and each Renewal Term, for an additional Renewal Term of three (3) years, unless either Party gives written notice to the other Party, at least one (1) year prior to the end of the Initial Term or Renewal Term, of intent to terminate this Agreement; provided, however, that in the event of such termination, SERC will work with FRCC to transfer responsibility for any compliance activities in progress to the entity that will be the CEA for the FRCC Member Services Division.

(c) Early Termination. Notwithstanding the provisions of subsections 6(a) and 6(b), Early Termination of this Agreement shall occur in the following events:

(i) If FRCC ceases to be a Regional Entity, this Agreement shall terminate as of the end of the calendar year that FRCC ceases to be a Regional Entity.

(ii) If FRCC ceases to be a Registered Entity in the FRCC Region, this Agreement shall terminate as of the last date that FRCC ceases to be a Registered Entity for any FRCC Registered Function.

(iii) If both parties agree in writing to terminate this Agreement at any time.

(iv) 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 the Commission, 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 as of one year following written notice by either Party to the other Party, or at such other time as may be mutually agreed by SERC and FRCC.

(v) Provided, that in the event of the termination of this Agreement, SERC will transfer responsibility for completion of all compliance processes that are in progress as of the date of Early Termination, or within a reasonable time after as mutually agreed to by the parties, to the entity that will be the CEA for FRCC Member Services Division.

(d) In the event of termination, the costs associated with the wind-down of this Agreement and transfer of any compliance processes in progress to the new CEA are payable by FRCC to SERC in accordance with Section 5 of this Agreement.

## **7. Representations of the Parties.**

(a) Representations of FRCC. FRCC represents and warrants to SERC that (i) FRCC is and shall remain during the term of this Agreement validly existing and in good standing pursuant to all applicable laws relative to this Agreement, (ii) no applicable law, contract or other legal obligation prevents FRCC from executing this Agreement and fulfilling its obligations hereunder, (iii) entry into this Agreement by FRCC is duly authorized under its governing corporate documents, and (iv) the person or persons executing this Agreement on behalf of FRCC are duly authorized to do so.

(b) Representations of SERC. SERC represents and warrants to FRCC that (i) SERC is and shall remain during the term of this Agreement validly existing and in good standing pursuant to all applicable laws relative to this Agreement, (ii) no applicable law, contract or other legal obligation prevents SERC from executing this Agreement and fulfilling its obligations hereunder, (iii) entry into this Agreement by SERC is duly authorized under its



governing corporate documents, and (iv) the person or persons executing this Agreement on behalf of SERC are duly authorized to do so.

**8. Limitation of Liability.**

SERC and FRCC 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. SERC and FRCC shall not be liable to one another for any damages whatsoever, other than for non-payment of or failure to remit compensation due pursuant to Section 5 of this Agreement, 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 SERC's or FRCC's responsibilities under this Agreement or in conducting activities under the authority of Section 215 of the Act, except to the extent that SERC or FRCC is found liable for gross negligence or intentional misconduct, in which case SERC or FRCC shall not be liable for any indirect, incidental, special, multiple, consequential (including without limitation attorneys' fees and litigation costs), exemplary, or punitive damages.

**9. 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.

**10. Confidentiality.**

During the course of the Parties' performance under this Agreement, a Party may receive Confidential Information, as defined in Section 1500 of the NERC ROP. 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 10. 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 by SERC, as the CEA with respect to the FRCC Registered Functions, in accordance with Section 8.0 and other provisions of the NERC Uniform CMEP.

**11. Amendment.**

Neither this Agreement nor any of the terms hereof, may be amended unless such amendment is made in writing and signed by the Parties.

**12. Dispute Resolution.**

In the event a dispute arises under this Agreement between SERC and FRCC, representatives of the Parties with authority to settle the dispute shall meet and confer in good faith in an effort to resolve the dispute in a timely manner. In the event the designated representatives are unable to resolve the dispute within thirty (30) days or such other period as the Parties may agree upon, each Party shall have all rights to pursue all remedies, except as

expressly limited by the terms of this Agreement. Neither Party shall have the right to pursue other remedies until the Dispute Resolution procedures of this Section 12 have been exhausted. This Section 12 shall not apply to enforcement actions or Remedial Action Directives by SERC, as the CEA, against a FRCC Registered Function, or hearings conducted at the request of FRCC as the Registered Entity for a FRCC Registered Function, pursuant to the NERC Uniform CMEP.

**13. Notices.**

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 SERC:

SERC Reliability Corporation  
2815 Coliseum Centre Drive  
Suite 500  
Charlotte, NC 28217  
Attn: Marisa Sifontes  
Facsimile: 704-357-7914

If to FRCC:

Florida Reliability Coordinating Council  
1408 N Westshore Blvd  
Suite 1002  
Tampa, FL 33607  
Attn: Reva Maskewitz  
Facsimile: 813-289-5646

Provided, that the foregoing notice provision shall not be applicable to notices and other communications between SERC, as the CEA, and FRCC as the Registered Entity for a FRCC Registered Function, which notices and other communications shall instead be provided or transmitted in accordance with the NERC Uniform CMEP.

**14. 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 Delaware 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 Delaware. All Parties hereby consent to the jurisdiction of any state or federal court of competent jurisdiction in Delaware for the purpose of hearing and determining any action not heard and determined by the Commission.

**15. 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.

**16. 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.

**17. Execution of Counterparts.**

This Agreement may be executed in counterparts and each counterpart shall have the same force and effect as the original.

**NOW, THEREFORE,** the Parties have caused this Agreement to be executed by their duly authorized representatives, to be effective as of the Effective Date.

SERC RELIABILITY CORPORATION

FLORIDA RELIABILITY  
COORDINATING COUNCIL

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

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

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

Name: Sarah Rogers

Title: President and CEO

Title: President and CEO

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

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

**AGREEMENT BETWEEN  
SERC RELIABILITY CORPORATION and  
SOUTHWEST POWER POOL REGIONAL ENTITY  
CONCERNING COMPLIANCE MONITORING AND ENFORCEMENT  
OF SPP, INC. REGISTERED FUNCTIONS**

THIS AGREEMENT (“Agreement”) made effective as of \_\_\_\_\_ (the “Effective Date”), between the SERC Reliability Corporation (“SERC”), an organization established to develop and enforce Reliability Standards, and Southwest Power Pool Regional Entity (SPP RE) a division of SPP, Inc. (“SPP”), an organization established to develop and enforce Reliability Standards within the geographic boundaries identified on **Exhibit A** to the “Amended and Restated Delegation Agreement between the North American Electric Reliability Corporation and Southwest Power Pool, Inc.” (referred to herein as the “SPP Region”), and for other purposes. SERC and SPP RE may be individually referred to herein as “Party” or collectively as “Parties.”

**RECITALS**

I. SERC is a party to a certain “Amended and Restated Delegation Agreement Between the North American Electric Reliability Corporation and SERC Reliability Corporation” (the “NERC-SERC Delegation Agreement”), which has been approved by the Federal Energy Regulatory Commission (“Commission”) and which states in Section 6 thereof, in pertinent part, that SERC shall enforce Reliability Standards (including Regional Reliability Standards) through a compliance enforcement program set forth in Exhibit D to the NERC-SERC Delegation Agreement.

II. SPP is a party to a certain “Amended and Restated Delegation Agreement Between the North American Electric Reliability Corporation and Southwest Power Pool, Inc.” (the “NERC-SPP Delegation Agreement”), which has been approved by the Commission and which states in Section 6 thereof, in pertinent part, that SPP RE shall enforce Reliability Standards (including Regional Reliability Standards) within the geographic boundaries set forth

in Exhibit A to the NERC-SPP Delegation Agreement through a compliance enforcement program set forth in Exhibit D to the NERC-SPP Delegation Agreement.

III. SPP serves as a Regional Transmission Organization and is currently registered as an Interchange Authority (IA), Planning Authority (PA), Reliability Coordinator (RC), Reserve Sharing Group (RSG), Transmission Planner (TP), and Transmission Service Provider (TSP) in the SPP RE Region. In this Agreement, the RC, IA, PA, RSG, TP and TSP functions are sometimes referred to as the “SPP Registered Functions,” and SPP is referred to as the “Registered Entity” with respect to its performance of the SPP Registered Functions.

IV. To avoid any appearance of a lack of independence in compliance monitoring and enforcement for SPP Registered Functions, SERC and SPP RE hereby agree, subject to approval by NERC and by the Commission, that SERC should assume responsibility for the Compliance Monitoring and Enforcement Program (“CMEP”) with respect to the SPP Registered Functions within the SPP RE Region, and that the terms on which responsibility for the CMEP with respect to the SPP Registered Functions shall be transferred to and performed by SERC should be memorialized in this Agreement.

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained herein, the Parties, intending to be bound, agree as follows:

**1. Responsibilities of SERC.**

(a) Beginning on the Effective Date, SERC will perform all responsibilities of the Compliance Enforcement Authority (“CEA”) as specified in the NERC uniform CMEP, Appendix 4C to the NERC Rules of Procedure (“ROP”), as amended from time to time (the “NERC Uniform CMEP”), within the SPP RE Region with respect to the SPP Registered Functions.

(b) Without limiting the scope of SERC’s responsibilities as stated in Subsection 1(a), SERC agrees to perform the following activities within the SPP RE Region:

(1) Administer all compliance processes in Section 3.0 of the NERC Uniform CMEP with respect to the SPP Registered Functions, in accordance with the NERC

Annual CMEP Implementation Plan required by Section 4.1 of the NERC Uniform CMEP for each year. If at any time, SPP Registered Functions change, SERC will monitor the Registered Functions in effect at that time.

(2) Lead all compliance audits and compliance violation investigations (“CVI”) of the SPP Registered Functions.

(i) SERC shall conduct a scheduled compliance audit of the SPP Registered Functions in accordance with the frequency established by NERC in the CMEP. As SPP is currently registered, SERC will audit the RC function at least once every three (3) years and shall conduct a scheduled compliance audit of the remaining functions, at least once every six (6) years.

(ii) Scheduled compliance audits of the SPP Registered Functions shall include all actively-monitored standards in accordance with the NERC Annual CMEP Implementation Plan.

(iii) As required by the NERC ROP, all compliance audits of the SPP RC function shall be conducted on site. Spot checks or other compliance monitoring methods may be completed off site.

(3) Determine if notices of Alleged Violations and proposed penalties or sanctions should be issued to SPP with respect to the SPP Registered Functions, and calculate or determine any proposed penalties or sanctions in accordance with the NERC *Sanction Guidelines*.

(4) Administer processes as specified in Section 5.0 of the NERC Uniform CMEP with respect to any notices of Alleged Violations and proposed penalties or sanctions issued with respect to the SPP Registered Functions.

(5) Review and approve proposed Mitigation Plans submitted by a SPP Registered Function, and monitor implementation and completion of approved Mitigation Plans, in accordance with Section 6.0 of the NERC Uniform CMEP.

(6) Determine if Remedial Action Directives should be issued to SPP with respect to a SPP Registered Function, and issue such Remedial Action Directives if determined to be necessary, in accordance with Section 7.0 of the NERC Uniform CMEP.

(7) Conduct settlement negotiations for any violations of Reliability Standards discovered by SERC per this agreement, if requested by SPP, in accordance with Section 5.4 of the NERC Uniform CMEP.

(8) Provide due process hearings for the SPP Registered Functions with respect to notices of Alleged Violations, proposed penalties and sanctions, disputed Mitigation Plans, and disputed Remedial Action Directives, as requested by SPP, in accordance with Attachment 2, Hearing Procedures, to the NERC Uniform CMEP.

(c) Compliance audit teams, CVI teams, and review teams for self-certifications, spot check responses, periodic data submittals, self-reports, exception reports and complaints submitted by or relating to a SPP Registered Function shall not include any employees of SPP, but may include employees of other Regional Entities, NERC and Commission staff members. Provided, that in accordance with Section 2(c) of this Agreement, SERC may request and obtain technical advice and assistance from SPP employees, acting in a consulting or advisory capacity, who are not employed in a SPP Registered Function.

## **2. Responsibilities of SPP.**

(a) As the Registered Entity for the SPP Registered Functions, SPP shall establish and designate to SERC a primary compliance contact for each SPP Registered Function, in accordance with Section 2.0 of the NERC Uniform CMEP.

(b) As the Registered Entity for the SPP Registered Functions, SPP shall timely respond to and comply with all notices, requests for information and schedules issued by SERC as the CEA pursuant to the NERC Uniform CMEP.



(c) SPP RE shall provide subject-matter experts (“SME”) as requested by SERC to provide technical advice and assistance to SERC, in SERC’s discretion, in carrying out the CMEP with respect to the SPP Registered Functions. A SME provided by SPP RE may be an employee of SPP or an industry volunteer, provided, that no SME provided by SPP RE may be employed by SPP in a SPP Registered Function. The Parties agree that SMEs provided by SPP RE shall only be used by SERC in a consulting or advisory capacity to provide expertise and advice on technical matters pertaining to the SPP Registered Functions, shall have no decision-making responsibilities with respect to any compliance processes or compliance enforcement matters, and shall not be a member of any compliance audit team, CVI team, or review team for self-certifications, spot check responses, periodic data submittals, self-reports, exception reports or complaints submitted by or relating to a SPP Registered Function.

(d) SPP RE shall reimburse SERC the actual costs of SERC’s performance of the CMEP with respect to the SPP Registered Functions, including an appropriate allocation of SERC’s General and Administrative costs, in accordance with Section 5 of this Agreement.

(e) Except as provided in this Agreement, SPP RE shall continue to perform all CMEP responsibilities in the SPP RE Region in accordance with the NERC-SPP Delegation Agreement.

### **3. Disposition of Penalties Paid by SPP with respect to a SPP Registered Function.**

Any penalties to be paid by SPP for violations of Reliability Standards by a SPP Registered Function, shall reduce the portion of the SPP RE ERO Assessment paid by load-serving entities and designees (“LSE”) in the SPP region for the subsequent fiscal year, in accordance with the *NERC Accounting, Financial Statement and Budgetary Treatment of Penalties Imposed and Received for Violations of Reliability Standards*.

**4. Transfer of Responsibilities for CMEP Activities With Respect To SPP Registered Functions That Are In Progress on the Effective Date.**

SERC shall assume full responsibility, as the CEA, for completion of all compliance processes with respect to the SPP Registered Functions within the SPP RE Region that are in progress as of the Effective Date, including without limiting the foregoing, (i) completion and issuance of reports of compliance audits and CVI of the SPP Registered Functions, (ii) completion of review of, and issuance of any findings or reports concerning, any self-certifications, spot-checks, periodic data submittals, self-reports, exception reports or complaints, submitted by or pertaining to a SPP Registered Function, (iii) determination of whether any notice of Alleged Violations and/or proposed penalties or sanctions should be issued to a SPP Registered Function as a result of any such compliance processes, (iv) processing of any notices of Alleged Violations and/or proposed penalties or sanctions that were issued before the Effective Date, or are issued after the Effective Date as the result of compliance processes conducted before the Effective Date, and (v) review, approval and monitoring of implementation and completion of any Mitigation Plans required of a SPP Registered Function as the result of compliance processes conducted before the Effective Date.

**5. Compensation to SERC for Performance of CMEP With Respect to the SPP Registered Functions.**

(a) Compensation for 2010.

For the period between the Effective Date of this Agreement and December 31, 2010, SERC shall invoice SPP RE the amount of \$40,000 in four invoices of \$10,000 each. The first such invoice will be issued on or about the Effective Date and the remaining three invoices shall be issued at approximately equal intervals between the Effective Date and December 31, 2010. SPP RE shall remit to SERC the amount of each invoice by check or electronic funds transfer to SERC within twenty (20) business days following the date of each invoice.

(b) Compensation for Years Subsequent to 2010.

(i) In its annual Business Plans and Budgets submitted to NERC and the Commission for the year 2011 and subsequent years within the term of this Agreement, SERC shall identify a portion of its CMEP budget, including an appropriate allocation of SERC's General and Administrative costs (the "SPP Registered Functions CMEP Budget"), that is attributable to the performance of the CMEP with respect to the SPP Registered Functions. SERC's allocation of resources to the performance of its obligations under this Agreement and the corresponding budgeted amount shall be subject to approval by NERC and by the Commission as part of their overall approval of SERC's business plan and budget. The amount of SERC's SPP Registered Functions CMEP Budget shall also be included in SPP RE's business plan and budget that is submitted to NERC and to the Commission for approval. The amount of the SPP Registered Functions CMEP Budget for each year, as approved by the Commission, (i) shall be excluded from the calculation of SERC's assessments to LSEs in the SERC region for each such year, and (ii) shall be included in the calculation of SPP's assessments to LSEs in the SPP Region for each such year. SERC shall invoice SPP RE for the amount of the SPP Registered Functions CMEP Budget in four equal quarterly amounts during each year, with the invoices to be issued by SERC to SPP RE on or about January 1, April 1, July 1 and October 1 and to be paid by SPP RE by check or electronic funds transfer to SERC within twenty (20) business days following the date of the invoice.

(c) Reconciliation of Costs.

No later than 90 days after the end of a budget-year, SERC shall provide to SPP RE a statement of actual expenses incurred by SERC in the fulfillment of SERC's responsibilities under this agreement for that budget-year. The statement shall disclose the actual costs of labor, travel and meetings, and all other direct costs, as well as

SERC's allocation of its actual General and Administrative costs. The statement shall summarize the reasons for any variances as compared to the budget amount. SERC shall provide supporting documentation for the final statement upon request by SPP RE. The total variance for the concluded budget year shall be incorporated as a compensating adjustment in both the SERC and SPP RE budgets in the second year following the budget-year and, as approved by NERC and the Commission, reflected in the quarterly invoices from SERC to SPP RE and quarterly payments by SPP RE to SERC in such year.

(d) Supplemental Invoice.

If during any budget-year, including the initial budget-year, the actual cost of performing SERC's responsibilities under this agreement exceeds the budgeted funding by more than ten (10) percent of SERC's budgeted cash reserve (for example as may be necessitated by the conduct of a compliance violation investigation or hearing), SERC shall have the right to issue supplemental invoices to SPP RE to recover in full all actual costs incurred above the budgeted funding. Upon receipt of such a supplemental invoice, SPP RE shall pay the full amount of the invoice by check or electronic funds transfer to SERC within sixty (60) days.

**6. Term and Termination.**

(a) Initial Term. The Initial Term of this Agreement shall be from the Effective Date through December 31, 2012.

(b) Renewal Terms. This Agreement shall automatically renew, without any notice or other action by either Party, at the end of the Initial Term and each Renewal Term, for an additional Renewal Term of three (3) years, unless either Party gives written notice to the other Party, at least one (1) year prior to the end of the Initial Term or Renewal Term, of intent to terminate this Agreement; provided, however, that in the event of such termination, SERC will

work with SPP RE to transfer responsibility for any compliance activities in progress to the entity that will be the CEA for SPP.

(c) Early Termination. Notwithstanding the provisions of subsections 6(a) and 6(b), Early Termination of this Agreement shall occur in the following events:

(i) If SPP ceases to be a Regional Entity, this Agreement shall terminate as of the end of the calendar year that SPP ceases to be a Regional Entity.

(ii) If SPP ceases to be a Registered Entity in the SPP RE Region, this Agreement shall terminate as of the last date that SPP ceases to be a Registered Entity for any SPP Registered Function.

(iii) If both parties agree in writing to terminate this Agreement at any time.

(iv) 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 the Commission, 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 as of one (1) year following written notice by either Party to the other Party, or at such other time as may be mutually agreed by SERC and SPP RE.

(v) Provided, that in the event of the termination of this Agreement, SERC will transfer responsibility for completion of all compliance processes that are in progress as of the date of Early Termination, or within a reasonable time after as mutually agreed to by the parties, to the entity that will be the CEA for SPP.

(d) In the event of termination, the costs associated with the wind-down of this Agreement and transfer of any compliance processes in progress to the new CEA are payable by SPP RE to SERC in accordance with Section 5 of this Agreement.

## **7. Representations of the Parties.**

(a) Representations of SPP RE. SPP RE represents and warrants to SERC that (i) SPP RE is and shall remain during the term of this Agreement validly existing and in good standing pursuant to all applicable laws relative to this Agreement, (ii) no applicable law, contract or other legal obligation prevents SPP RE from executing this Agreement and fulfilling its obligations hereunder, (iii) entry into this Agreement by SPP RE is duly authorized under its governing corporate documents, and (iv) the person or persons executing this Agreement on behalf of SPP RE are duly authorized to do so.

(b) Representations of SERC. SERC represents and warrants to SPP that (i) SERC is and shall remain during the term of this Agreement validly existing and in good standing pursuant to all applicable laws relative to this Agreement, (ii) no applicable law, contract or other legal obligation prevents SERC from executing this Agreement and fulfilling its obligations hereunder, (iii) entry into this Agreement by SERC is duly authorized under its governing corporate documents, and (iv) the person or persons executing this Agreement on behalf of SERC are duly authorized to do so.

## **8. Limitation of Liability.**

SERC and SPP RE 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. SERC and SPP RE shall not be liable to one another for any damages whatsoever, other than for non-payment of or failure to remit compensation due

pursuant to Section 5 of this Agreement, 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 SERC's or SPP RE's responsibilities under this Agreement or in conducting activities under the authority of Section 215 of the Act, except to the extent that SERC or SPP is found liable for gross negligence or intentional misconduct, in which case SERC or SPP RE shall not be liable for any indirect, incidental, special, multiple, consequential (including without limitation attorneys' fees and litigation costs), exemplary, or punitive damages.

**9. 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.

**10. Confidentiality.**

During the course of the Parties' performance under this Agreement, a Party may receive Confidential Information, as defined in Section 1500 of the NERC ROP. 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 10. 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 by SERC, as the CEA with respect to the SPP Registered Functions, in accordance with Section 8.0 and other provisions of the NERC Uniform CMEP.

**11. Amendment.**

Neither this Agreement nor any of the terms hereof, may be amended unless such amendment is made in writing and signed by the Parties.

**12. Dispute Resolution.**

In the event a dispute arises under this Agreement between SERC and SPP RE, representatives of the Parties with authority to settle the dispute shall meet and confer in good faith in an effort to resolve the dispute in a timely manner. In the event the designated representatives are unable to resolve the dispute within thirty (30) days or such other period as the Parties may agree upon, each Party shall have all rights to pursue all remedies, except as expressly limited by the terms of this Agreement. Neither Party shall have the right to pursue other remedies until the Dispute Resolution procedures of this Section 12 have been exhausted. This Section 12 shall not apply to enforcement actions or Remedial Action Directives by SERC, as the CEA, against a SPP Registered Function, or hearings conducted at the request of SPP as the Registered Entity for a SPP Registered Function, pursuant to the NERC Uniform CMEP.

**13. Notices.**

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 SERC:

SERC Reliability Corporation  
2815 Coliseum Centre Drive  
Suite 500  
Charlotte, NC 28219  
Attn: Marisa Sifontes  
Facsimile: 704-357-7914

If to SPP:

Southwest Power Pool Regional Entity.  
16101 La Grande  
Suite 103  
Little Rock, AR 72223  
Attn: Alison Hayes, Legal Counsel  
Facsimile: 501-821-8726

Provided, that the foregoing notice provision shall not be applicable to notices and other communications between SERC, as the CEA, and SPP as the Registered Entity for a SPP Registered Function, which notices and other communications shall instead be provided or transmitted in accordance with the NERC Uniform CMEP.

#### **14. 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 Delaware 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 Delaware. All Parties hereby consent to the jurisdiction of any state or federal court of competent jurisdiction in Delaware for the purpose of hearing and determining any action not heard and determined by the Commission.

#### **15. 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.

**16. 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.

**17. Execution of Counterparts.**

This Agreement may be executed in counterparts and each counterpart shall have the same force and effect as the original.

**NOW, THEREFORE**, the Parties have caused this Agreement to be executed by their duly authorized representatives, to be effective as of the Effective Date.

SERC RELIABILITY CORPORATION

SOUTHWEST POWER POOL, INC.

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

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

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

Name: Stacy Dochoda

Title: President and CEO

Title: General Manager  
SPP Regional Entity

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

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

## **Status of Three-Year ERO Performance Assessment**

### **Action Required**

None.

### **Background**

At the November 4, 2009 Member Representatives Committee (MRC) meeting, Dave Nevius, NERC Senior Vice President, presented for information and feedback NERC's preliminary plans for addressing the *Specific NERC Actions* contained in the Three-Year ERO Performance Assessment report.

As noted in that report, there is a strong relationship between this project and the efforts being undertaken by NERC and the Regional Entities to update the Regional Delegation Agreements (RDAs) and make conforming changes to the Rules of Procedure. There is also strong correlation with the results of the recent [Crowe Audit of the Compliance Monitoring and Enforcement Program](#), which identified a number of other actions that will influence changes to both the RDAs and the Rules of Procedure with respect to the compliance program.

NERC and the Regional Entities have been working aggressively to develop revisions to the RDAs and associated changes to the Rules of Procedure that will address all of these issues. The status of those efforts was presented for feedback at the MRC February 15 meeting under agenda item 11.

### **Current Status of NERC Actions from Three-Year ERO Performance Assessment**

The attached table (**Attachment 1**) provides a list of all the actions NERC is taking or planning to take in each of its program areas to address the *Specific NERC Actions* identified in the assessment. In those cases where additional resources will be needed to complete an action, those resources will be considered for inclusion in the 2011 NERC Business Plan and Budget.

### **Highest Priority Actions**

While all of the actions identified in the Three-Year ERO Performance Assessment are important, the following are receiving the highest priority attention by NERC and are consistent with the CEO's vision statement (**Attachment 2**).

### **Standards**

- Results-Based Reliability Standards
- Critical Infrastructure Protection Standards
- Streamlining the Reliability Standards Development Process

### **Compliance**

- Expedited means for processing less-significant standards violations
- Promote greater process transparency and consistency in determination of violations and penalties
- Complete and deploy the initial version of the Compliance Reporting and Tracking System (CRATS)

### **Event Analysis and Information Exchange**

- Become a “learning organization” focused on improving reliability performance through event causal analyses, communications of lessons learned, and tracking of recommendations
- Increase the number of “lessons learned” alerts disseminated to the industry

### **Reliability Assessment and Performance Analysis**

- Develop and publish scenario assessments of key issues that could impact reliability
- Develop a risk-management tool for measuring and tracking the severity and frequency of reliability risks

### **Critical Infrastructure Protection**

- Develop bulk power system (BPS) critical infrastructure protection (CIP) policy and goals for physical and cyber security
- Provide more CIP education/guidance for registered entities and training for NERC and Regional Entity CIP auditors
- Successfully implement the Technical Feasibility Exception program

### **Situational Awareness**

- Continue to improve BPS situational awareness capability and informational tools for NERC and the Regional Entities
- Integrate ES-ISAC and physical and cyber security awareness and analysis capabilities into the NERC Situational Awareness Center
- Enhance Regional Entity and Federal partnerships supporting BPS/CIP/Cyber situational awareness and facilitate cooperation between the Electricity Sector and State and Federal partners through coordination and participation in BPS/CIP/Cyber exercise efforts

### **Training, Education and Personnel Certification**

- Provide training and education support for the high priority activities of Standards, Compliance, and Critical Infrastructure Protection

Current Status of NERC Actions from Three-Year ERO Performance Assessment

February 1, 2010

<b>A. Reliability Standards Development</b>	
<b>1. <i>Focus existing Reliability Standards and Reliability Standards development on areas that will lead to the greatest improvement in bulk power system reliability.</i></b>	<ul style="list-style-type: none"> <li>• November 2009 — Board endorsed “results-based” standards initiative.</li> <li>• CEO discussed with FERC Director of the Office of Electric Reliability.</li> <li>• Included in the 2010–2012 Reliability Standards Development Plan (RSDP) to incorporate results-based standards initiative.</li> <li>• First prototype standard (FAC-003) using the results-based approach targeted for ballot Aug 2010. [<a href="#">Project 2010-06</a>]</li> <li>• Additional training for drafting team leadership and coordinators.</li> <li>• Expanding outreach to industry stakeholders, technical committees, and other NERC program areas for input on new and revised standards. (System Protection and Control initiative one example.)</li> </ul>
<b>2. <i>Accelerate the Reliability Standards Development Process.(RSDP)</i></b>	<ul style="list-style-type: none"> <li>• Proposed changes to RSDP and associated standards procedures documents posted for comment (January 2010). To be presented for Board approval May 2010.</li> <li>• Each standards project assigned list of issues to be considered, including directives from FERC orders. [see <a href="#">2010–2012 Reliability Standards Development Plan</a>]</li> <li>• Updating drafting team guidelines.</li> </ul>
<b>3. <i>Promote, encourage, and facilitate participation by smaller entities.</i></b>	<ul style="list-style-type: none"> <li>• Increased outreach to, and communications with, smaller entities through industry trade groups.</li> </ul>
<b>4. <i>Role of Regulatory and NERC staff in Reliability Standards development.</i></b>	<ul style="list-style-type: none"> <li>• Board approved policy positions on regulatory and NERC staff involvement in standards development; Standards Committee directed to incorporate into processes and procedures.</li> </ul>

<b>A. Reliability Standards Development</b>	
<b>5. <i>Better align functional categories with current industry/market structure.</i></b>	<ul style="list-style-type: none"> <li>• Ad Hoc Group for Generator Requirements at the Transmission Interface (GOTO) recommended Standards Authorization Request (SAR) and draft standard posted for comment.</li> <li>• SAR and implementation plan to align definitions of various functional entities between the Functional Model, NERC Glossary, and Statement of Compliance Registration Criteria posted for comment. [<a href="#">Project 2010-08</a>]</li> </ul>
<b>6. <i>Provide clear measures for each standard requirement.</i></b>	<ul style="list-style-type: none"> <li>• Drafting team guidelines to be updated by December 2010.</li> <li>• Implement process for drafting teams to assist in developing Reliability Standard Audit Worksheets (RSAWs).</li> </ul>
<b>7. <i>Enhance Stakeholder Communications.</i></b>	<ul style="list-style-type: none"> <li>• Drafting team coordinators to keep website up to date.</li> <li>• Use opportunity of regional meetings to present updates on standards under development and recently approved standards to stakeholder groups.</li> </ul>
<b>8. <i>Expedite completion of “fill-in-the-blank” Reliability Standards.</i></b>	<ul style="list-style-type: none"> <li>• Nov 2009 — <a href="#">2010–2012 Reliability Standards Development Plan</a> approved by board, includes projects to replace all of the “fill-in-the-blank” standards.</li> </ul>

<b>B. Organization Registration and Certification</b>	
<b>1. <i>Raise threshold criteria for requiring entities to be registered.</i></b>	<ul style="list-style-type: none"> <li>• Reviewing existing registration criteria with NERC technical staff, Regional Entity Registration Working Group, Organization Registration and Certification Subcommittee of Compliance and Certification Committee, and Planning and Operating Committees.</li> </ul>
<b>2. <i>Allow registration by requirement.</i></b>	<ul style="list-style-type: none"> <li>• Continue to promote use of Joint Registration Organization agreements.</li> </ul>
<b>3. <i>Improve consistency across Regional Entities.</i></b>	<ul style="list-style-type: none"> <li>• Updated registered entity information.</li> <li>• Continue to review organization registration activities with Regional Entities and provide guidance as appropriate.</li> </ul>
<b>4. <i>Provide process for single registration for entities doing business in more than one Regional Entity.</i></b>	<ul style="list-style-type: none"> <li>• Complete development of Multi-Regional Registered Entity procedures.</li> <li>• Amend Regional Delegation Agreements, Rules of Procedure, and other associated documents, as necessary, to accommodate these procedures.</li> </ul>

<b>B. Organization Registration and Certification</b>	
<p>5. <i>Improve joint registration procedures.</i></p>	<ul style="list-style-type: none"> <li>• Continue to work with Regional Entities through the Registration Working Group to improve JRO procedures.</li> <li>• Provide more detailed information on joint registration at Regional Entity conferences and workshops.</li> <li>• Develop suggested template for JRO agreements.</li> </ul>

<b>C. Compliance Monitoring and Enforcement</b>	
<p>1. <i>Put more emphasis on training, education, and assistance regarding what it takes to comply with, and to demonstrate compliance with Reliability Standards.</i></p> <p>2. <i>Eliminate the backlog of audit reports and compliance violations so more precedents are available to industry.</i></p> <p>3. <i>Provide more guidance on mitigation plans and process proposed plans more quickly.</i></p>	<ul style="list-style-type: none"> <li>• Develop and make registered entities aware of processes available to them to submit hypothetical or proposed means of complying and demonstrating compliance with particular reliability standards for review and guidance by NERC.</li> <li>• Partner with third-party providers and industry trade associations to provide education and assistance to registered entities.</li> <li>• Increase the offerings of programs and information by the NERC training and education program focused on appropriate means of complying and demonstrating compliance with particular reliability standards. (Will require resources beyond current budget.)</li> <li>• More compliance cases are being processed through the system, which will provide guidance on what is leading to violations.</li> <li>• Continue to develop and expand the uniform set of forms, templates, and detailed set of processing steps, including “example” documents, for Regional Entities to use; encourage Regional Entities to seek advice in advance of issuing Notices of Alleged Violation and Proposed Penalty or Sanction, or proffering a settlement offer, to a registered entity.</li> <li>• Further develop and make use of the “Disposition Document” that provides options for streamlining the processing of alleged or confirmed violations from intake to final disposition.</li> <li>• Additional training program for Regional Entity compliance personnel. (Additional resources may be required beyond current budget.)</li> <li>• Develop simplified, streamlined options for processing violations for more frequently occurring violations that pose a lower risk to the bulk power system (e.g., deficiency letters, short-form settlement agreements, etc.).</li> </ul>

	<ul style="list-style-type: none"> <li>• Complete development and implementation of the Compliance Reporting and Tracking System (CRATS) — a common, centralized platform for collection and maintenance of compliance information by NERC and the Regional Entities.</li> <li>• Amend Regional Delegation Agreements and ERO Rules of Procedure, as necessary, to implement or accommodate the proposed actions.</li> </ul>
<p><b>4. <i>There is no incentive for registered entities to self-report violations because there is no apparent benefit or advantage to self-reporting.</i></b></p>	<ul style="list-style-type: none"> <li>• Continue to offer revised pro forma settlement option for registered entities that self-report violations.</li> </ul>
<p><b>5. <i>Focus audits on whether the registered entity’s actual performance demonstrates compliance rather than on documentation and provide recommendations for improvement.</i></b></p> <p><b>6. <i>Provide more uniformity and consistency in audits between Regional Entities and between different audit teams.</i></b></p> <p><b>7. <i>Improve the efficiency and effectiveness of the compliance audit process.</i></b></p> <p><b>8. <i>Improve the quality and value of the RSAWs.</i></b></p>	<ul style="list-style-type: none"> <li>• Review and improve compliance audit processes, audit scopes, RSAWs, post-audit questionnaires, and existing templates and instructions for audit reports. Use feedback from registered entities to identify specific areas for improvement.</li> <li>• Review the need for additional auditor training, including remedial training or counseling in cases where specific problems are identified.</li> <li>• NERC Regional Operations Group to work more closely with Regional Entity working groups to improve efficiency, effectiveness, and consistency of Regional compliance programs.</li> <li>• Amend Regional Delegation Agreements and NERC Rules of Procedure as appropriate to effect improvements in compliance monitoring and enforcement processes across all Regional Entities.</li> <li>• Focus attention on those areas where reliability could be most improved by using compliance violation results and event analyses to identify reliability standards for active monitoring.</li> </ul>
<p><b>9. <i>Compliance violation investigations take too long.</i></b></p>	<ul style="list-style-type: none"> <li>• Shift focus from compliance violation investigations to one of a “learning organization” focused on improving reliability performance through event causal analyses, communications of lessons learned, and tracking of recommendations.</li> <li>• Disseminate lessons learned from event analyses to the industry as soon as practicable.</li> </ul>
<p><b>10. <i>Basis for penalty determinations needs to be more transparent.</i></b></p>	<ul style="list-style-type: none"> <li>• Review Sanction Guidelines for improvement and increased transparency.</li> <li>• Provide guidance to Regional Entities when requested.</li> </ul>
<p><b>11. <i>Improve system for submitting compliance information.</i></b></p>	<ul style="list-style-type: none"> <li>• Complete development and implementation of the Compliance Reporting and Tracking System (CRATS).</li> </ul>



<p><b><i>12. Data retention requirements in compliance audit scopes conflict with those in Reliability Standards.</i></b></p>	<ul style="list-style-type: none"> <li>• Identify which reliability standards contain provisions related to document retention that may be inconsistent with the CMEP and Rules of Procedure and initiate revisions to those reliability standards.</li> <li>• In conjunction with the Regional Entities, communicate with registered entities the provisions contained in Compliance Process Bulletin #2009-005: “Current In-Force Document Data Retention requirements for Registered Entities.”</li> </ul>
<p><b><i>13. Maintaining compliance with CIP Reliability Standards while providing critical energy infrastructure documentation to compliance teams.</i></b></p>	<ul style="list-style-type: none"> <li>• Complete the development of a formal procedure describing how compliance audit teams will treat critical energy infrastructure information.</li> <li>• Establish a secure portal at NERC for receiving critical energy infrastructure information from registered entities.</li> </ul>

<b>D. Event Analysis and Information Exchange</b>	
<p><b><i>1. Backlog of final event analysis reports delays dissemination of lessons learned to the industry; consider interim reports.</i></b></p>	<ul style="list-style-type: none"> <li>• Revising event analysis procedures to promote dissemination of interim lessons learned.</li> <li>• Additional staff added to assist in completing analysis reports sooner.</li> </ul>
<p><b><i>2. Establish threshold criteria for which events will be analyzed.</i></b></p>	<ul style="list-style-type: none"> <li>• Threshold criteria reviewed, revised and ready for industry comment; categories established for different levels of analysis required.</li> <li>• To be incorporated into revisions of Rules of Procedure and Appendix 8.</li> </ul>
<p><b><i>3. Use root cause analysis experts (staff or consultants) to expedite analyses.</i></b></p>	<ul style="list-style-type: none"> <li>• Use outside root cause analysis consultants as needed and as budget limitations allow.</li> </ul>
<p><b><i>4. Some recommendations to industry assume that cause of an individual event represents a general practice.</i></b>  <b><i>5. Include more detail in Alerts</i></b></p>	<ul style="list-style-type: none"> <li>• Industry Alerts reviewed to make clear when based on single event vs. general trend.</li> <li>• Addition of Lessons Learned “bulletins” to supplement alerts</li> <li>• Additional technical background information being included in Alerts and Lessons Learned bulletins, while respecting critical infrastructure protection issues.</li> </ul>
<p><b><i>6. Separate event analyses from compliance violation investigations to eliminate the prosecutorial presumption of violation aspects from event analyses.</i></b></p>	<ul style="list-style-type: none"> <li>• Shifting emphasis of NERC efforts and resources away from compliance violation investigations (CVIs) and compliance inquiries (CIQs) to event analyses and development and dissemination of lessons learned.</li> </ul>

<b>E. Reliability Assessment</b>	
<b>1. <i>Assessment reports need to avoid taking policy advocacy positions and include more support from well-researched information.</i></b>	<ul style="list-style-type: none"> <li>• Assumptions, data, and conclusions will be investigated and validated in future reliability assessments. Use of outside consultants will be used to the extent 2010 budget permits.</li> <li>• Peer review process being refined to ensure that comments of NERC and Regional representatives are reflected in reliability assessments. Ensure industry will have ample opportunity to voice their comments on the entire report.</li> </ul>
<b>2. <i>Improve reliability assessment metrics including their definition, calculations, and granularity, along with the transparency and process used to incorporate NERC comments into regional self assessments.</i></b>	<ul style="list-style-type: none"> <li>• Regional stakeholder working groups will be engaged as Regional assessments are developed.</li> <li>• Reliability Metrics Working Group is involved in vetting, validating, and improving metrics used in reliability assessment reports.</li> </ul>
<b>3. <i>Recognize state-mandated capacity procurement requirements in assessments.</i></b>	<ul style="list-style-type: none"> <li>• Being addressed in revision to Reliability Assessment Guidebook.</li> </ul>
<b>4. <i>Expand the long term assessment beyond the present 10-year horizon.</i></b>	<ul style="list-style-type: none"> <li>• Reliability Assessment Subcommittee is reviewing pros and cons of a longer-term assessment horizon.</li> </ul>
<b>5. <i>Expand NERC's data gathering to include more bulk power system entities for a more complete set of interconnection information: also reduce amount of data being collected.</i></b>	<ul style="list-style-type: none"> <li>• LTRA being reorganized to better reflect resource adequacy situation on an Interconnection-wide basis.</li> </ul>
<b>6. <i>Share reliability and adequacy assessments through web-based tools</i></b>	<ul style="list-style-type: none"> <li>• One Webinar conducted for 2009 LTRA.</li> <li>• Additional webinars planned for 2010 LTRA as well as special scenario analyses.</li> </ul>
<b>7. <i>Conduct "scenario assessments" for NERC long-term reliability assessments</i></b>	<ul style="list-style-type: none"> <li>• Continuing with the process and schedule for scenario analyses as outlined in the 2009 LTRA.</li> </ul>

<b>F. Performance Analysis and Metrics</b>	
<b>1. <i>Improve process for data collection.</i></b>	<ul style="list-style-type: none"> <li>• First set of metrics developed.</li> <li>• Continue to vet metrics development, collection, and analysis with industry stakeholders through Reliability Metrics Working Group and NERC Planning and Operating Committees.</li> <li>• Develop a centralized, automatic data collection, reporting, and validation process, and calculation tools to support reliability metrics. Request for proposal being developed.</li> </ul>
<b>2. <i>Develop only those metrics critical to bulk power system reliability.</i></b>	<ul style="list-style-type: none"> <li>• Calculating metrics identified as key indicators of BPS reliability, measured against the six characteristics of Adequate Level of Reliability.</li> </ul>
<b>3. <i>Consider what metrics ISOs and RTOs already have developed.</i></b>	<ul style="list-style-type: none"> <li>• Reliability Metrics Working Group (RMWG) has added representation from ISOs and RTOs to address what metrics have already been developed.</li> <li>• RMWG developed an open process and has considered metrics developed by others, including North American Transmission Forum, Canadian Electricity Association, and proposals from NERC Planning and Operating Committee subgroups.</li> </ul>
<b>4. <i>More dissemination of metrics to industry.</i></b>	<ul style="list-style-type: none"> <li>• Included metrics in 2008 and 2009 LTRA reports, on NERC Website, and in special publications.</li> </ul>

<b>G. Critical Infrastructure Protection</b>	
<b>1. <i>Centralize direction for implementation of CIP Reliability Standards at NERC rather than allowing Regional Entities to engage in their own efforts.</i></b>	<ul style="list-style-type: none"> <li>• NERC providing guidance and direction to Regional Entities in the form of Compliance Bulletins.</li> <li>• 2010 goals established to provide more CIP education for registered entities and training for NERC and Regional Entity CIP auditors.</li> </ul>
<b>2. <i>More timely guidance on implementation of CIP Reliability Standards, especially for the identification of Critical Cyber Assets using risk-based methodologies; place greater reliance on technical committees.</i></b>	<ul style="list-style-type: none"> <li>• Version 2 of CIP-002–009 filed with FERC in May 2009.</li> <li>• Version 3 being drafted to address remaining issues in FERC Order 706.</li> <li>• NERC leading industry outreach and communications on Order 706 standards drafting effort.</li> <li>• Informal comment period through February 12, 2010.</li> <li>• Webinar February 3, 2010.</li> </ul>

<b>G. Critical Infrastructure Protection</b>	
<b>3. <i>Need for Technical Feasibility Exceptions.</i></b>	<ul style="list-style-type: none"> <li>• Plan for Technical Feasibility Exceptions (TFEs) developed and implemented.</li> <li>• FERC Order on TFEs added two additional requirements.</li> <li>• Special provisions for TFEs associated with additional requirements.</li> </ul>
<b>4. <i>Need fast track process for interpretation requests for CIP Reliability Standards.</i></b>	<ul style="list-style-type: none"> <li>• Working with Standards Program to develop expedited interpretations process of CIP standards.</li> </ul>
<b>5. <i>Cyber security Alerts insufficiently targeted and lack detail.</i></b>	<ul style="list-style-type: none"> <li>• NERC Secure Notification System, scheduled for full operation in 1Q 2010, will permit better targeting of affected entities.</li> </ul>

<b>H. Situational Awareness</b>	
<b>1. <i>Real-time situation awareness is outside of NERC's scope.</i></b>	<ul style="list-style-type: none"> <li>• NERC Situational Awareness Center operational and partially staffed. Additional staff being added to provide 24x7 coverage.</li> <li>• Situational Awareness for FERC, NERC, and the Regions (SAFNR) to evolve to meet the needs of all entities.</li> </ul>
<b>2. <i>Define acceptable communications protocols for use during system events.</i></b>	<ul style="list-style-type: none"> <li>• NERC working with Electricity Sector Steering Group on BPS Critical Infrastructure Policy Statement. To be presented to NERC Member Representatives Committee at February 15, 2010 meeting.</li> </ul>

<b>I. Training, Education, and Personnel Certification</b>	
<b>1. <i>Broaden the operator certification program to include credentials for more functions and revise the criteria for qualifying activities.</i></b>	<ul style="list-style-type: none"> <li>• Feasibility of offering advanced system operator credential addressed in white paper issued October 2009.</li> <li>• Plan for approval in late 2010.</li> <li>• Plan for offering credentials for generator operators planned to be addressed in 2011 and for transmission operators at local control centers in 2012.</li> </ul>
<b>2. <i>Improve the current system used by system operators and training providers for tracking continuing education hours to maintain a credential.</i></b>	<ul style="list-style-type: none"> <li>• Complete — change implemented in July 2009.</li> </ul>
<b>3. <i>Offer more targeted and timely education programs.</i></b>	<ul style="list-style-type: none"> <li>• Development and implementation training and education support for providing more targeted and timely information about upcoming changes to standards and compliance requirements is under development, with emphasis on the highest priority activities. Completion by mid 2010 will require assignment of additional staff resources.</li> </ul>
<b>4. <i>Requirements for training programs and training providers.</i></b>	<ul style="list-style-type: none"> <li>• White paper on expanding NERC's role in establishing accreditation criteria for training programs to be posted for industry comment in 1Q 2010.</li> <li>• Additional staff required to implement.</li> </ul>

## **Effective Model for Self-Regulation of Bulk Power System Reliability A Vision for the Electric Reliability Organization (ERO)**

### **Vision**

NERC will be the world's leading expert organization on bulk power system reliability risk management, will promote compliance excellence and enforce compliance with mandatory reliability standards, and will be a trusted leader and advocate in reliability matters.

### **Action Plan**

1. Rebalance NERC's role as the self-regulatory ERO to deliver valuable contributions to bulk power system reliability while maintaining strong enforcement authority:
  - a. Be a learning organization focused on improving reliability performance through event causal analysis, communication of lessons learned, and tracking of recommendations (INPO-like).
  - b. Be a risk-informed organization, able to identify and understand reliability risks, help industry manage those risks, and effectively prioritize reliability initiatives.
  - c. Promote a culture of reliability excellence and compliance with reliability standards.
  - d. Be a recognized and trusted leader and advocate in reliability matters.
  - e. Be a strong enforcement authority that is independent, without conflict of interest, objective and fair, and resolute in ensuring compliance with mandatory standards.
2. Build an ERO-wide enterprise based on effective integration and leveraging of regional and stakeholder ideas and expert resources with a common purpose of improving reliability.
3. Build constructive relationships with FERC, Congress, and other federal, state, and provincial authorities in the U.S. and Canada. Such relationships must be built through communicating expectations and consistently delivering responsive results that demonstrate effective mitigation of reliability risk.
4. Transition reliability standards to be results-based over a five-year period, with higher priority standards to be completed within two years and an initial sample standard to be completed within eight months. Modify the standards development procedure to streamline the development and approval process. Provide a more efficient process for clarifying the field application of reliability standards as a preference to the current formal interpretations process. Reestablish trust of the industry and government in the reliability standards process and foster industry leadership in developing excellent reliability standards. Develop formal feedback mechanisms from event analysis and compliance enforcement to continually improve reliability standards.

5. Modify compliance procedures to promote greater process transparency to registered users and greater consistency in the determination of violations and penalties. Apply risk-informed approaches in the development of audit programs, compliance self-certifications, and spot checks. Establish alternative, streamlined procedures for minor, administrative violations. Promote a culture of compliance excellence through education, transparency, information, and incentives. Align NERC and regional compliance operations to be more complementary and less duplicative.
6. Develop a robust capability to conduct event analysis, using root cause and risk-based methods. Provide effective triage of events to ensure analysis is conducted and reviewed at the proper level. Working with industry, develop clear, bright-line criteria for the reporting and classification of system events. Incentivize rigorous self-evaluation of system events by registered entities. Ensure lessons learned are communicated to impacted parties in a timely manner. Refine the alerts program and develop a recommendations tracking capability to ensure accountability for reliability improvement actions.
7. Develop policy level goals and scope for the reasonable physical and cyber security protection of critical bulk power system assets. Facilitate a proactive action plan by industry that demonstrates effective mitigation of security risks, including safeguarding of assets, developing mitigation alternatives, and preparing and testing recovery plans. Establish minimum bright-line criteria for identification of critical bulk power system assets. Work closely with government to ensure availability of actionable information on security threats and promote synergies between government and industry security initiatives. Communicate the collective industry efforts to government and public.

### **What Can Industry Do?**

1. Work through NERC to develop new CIP reliability standards that establish clear-bright line criteria for the identification of critical assets.
2. Lead the transition to results-based reliability standards and provide the industry's best experts to develop these standards.
3. Accept the due process tradeoffs associated with a more streamlined standards process.
4. Promote compliance excellence through rigorous self-evaluation and self-reporting of possible violations, and proactive remediation.
5. Work through NERC to develop clear criteria for reporting and analysis of system events for risk-based analysis.
6. Proactively analyze bulk power system events and implement improvement recommendations.
7. Promote NERC's risk-based and learning organization approaches with regulators.





**Personnel Certification Governance Committee Report**

**Action Required**

None.

**2009 Examination Passing Rate**

The passing rate for the system operator certification examination increased slightly in 2009 over 2008 to 64.8 percent. The Personnel Certification Governance Committee (PCGC) considers this an acceptable rate as the exam is now given exclusively to new system operators with little or no experience.

<b>System Operator Certification Exam Statistics: 1998-2009</b>				
<b>Year</b>	<b>Number of Exams Taken</b>	<b>Number of Exams Passed</b>	<b>Number of Exams Failed</b>	<b>Percent Pass</b>
1998	997	920	77	92.3%
1999	1598	1,409	189	88.2%
2000	1422	1,089	333	76.6%
2001	777	593	184	76.3%
2002	993	760	233	76.5%
2003	1,868	1,555	313	83.2%
2004	1,690	1,412	278	83.6%
2005	2,170	1,731	439	79.8%
2006	1,262	943	319	74.7%
2007	1,030	729	301	70.8%
2008	1,009	634	375	62.8%
2009	958	621	337	64.8%
<b>Totals</b>	<b>15,774</b>	<b>12,396</b>	<b>3,378</b>	<b>78.6%</b>

### **Certification Program Fee Increases**

In the fall of 2009, the PCGC substantially raised the fees for initial certification exams and credential maintenance to cover all direct and newly identified indirect costs. On November 6, 2009, an announcement was released increasing the fees from \$350 to \$700 for the exam and \$600 for a three-year credential renewal effective December 1, 2009. This triggered a large increase in the number of requests normally received for credential renewals and exams in November. Some of the credential renewals were for credentials expiring in 2011 and 2012, and many of the authorizations-to-test (ATT) were sold to beat the fee increase.

The heavy load of 660 requests was handled smoothly without any issues. The average level of requests for these months is about 170. The total number of requests in December 2009 returned to normal as the new fees became effective.

### **Increasing Certified Operator Population**

In 2009 the total number of certified system operators with active credentials rose from around 5,600 to 6,060. In the past three years the total number of active system operators fluctuated between 5,600 and 5,800. The number of active certified system operators is expected to rise by 200 to 300 within the next two years. This is based on the understanding that several ISOs will soon require their transmission operating members to have certified operators in the control centers.

### **Development of New Certification Exams**

Analysis of the 2009 job survey is complete and the Examination Working Group (EWG) is in the process of establishing new content outlines for each of the four exams. The content outlines will be mapped to the existing exam item (question) bank as the EWG prepares the new certification exams. Exam development is on schedule for release around September 2010.

### **Advanced Certification Project**

The PCGC received several comments on its whitepaper seeking input on the creation of an Advanced Reliability Operator credential. The objective of the whitepaper was to determine the level of interest and ultimately the feasibility of offering an advanced credential. The majority of comments did not favor the creation of an advanced credential. When the results were presented to the Operating Committee in December, members voiced concern that this advanced credential was not needed and therefore would not support the creation of the credential. The PCGC will discuss this input at its upcoming meeting.

The PCGC is exploring other options of aligning certification to better meet industry needs and expectations. The plan is to identify several options by the end of 2010. The PCGC will be working with the Personnel Subcommittee, the Continuing Education Program, and stakeholders on some of the options.

## SUMMARY OF 2009 RESULTS – TOTAL ERO ENTERPRISE (NERC and REGIONAL ENTITIES COMBINED)

Preliminary, unaudited financial results for 2009 for NERC and the eight Regional Entities reflect total spending for expenses and fixed assets of \$119,814,057 versus a budget of \$130,386,650, equaling an under budget spend of (\$10,572,593) or just over 8%. Total funding increased over budget by \$91,298, for a total positive variance from budget of \$10,663,891.

	TOTAL CHANGE IN ASSETS		
	2009 Actual	2009 Budget	2009 Variance Over(Under)
NERC	(533,340)	(1,558,606)	1,025,266
FRCC	(102,917)	-	(102,917)
MRO	154,307	-	154,307
NPCC	738,427	1,629	736,798
RFC	(1,999,276)	(2,520,367)	521,091
SERC	484,342	-	484,342
SPP	2,164,788	642,791	1,521,997
TRE	(1,312,071)	(2,666,324)	1,354,253
WECC	4,968,755	-	4,968,755
<b>TOTAL ERO</b>	<b>4,563,015</b>	<b>(6,100,877)</b>	<b>10,663,892</b>

Following is a summary of the variances by funding and expense category, including any common reasons for these variances.

**FUNDING** – Actual was \$91,298 over budget due to a combination of relatively minor over budget and under budget variances in other sources of funding.

#### **EXPENSES**

- **Personnel Expenses** – Total Personnel Expenses were (\$3.8M) under budget. FRCC, SERC and SPP reported an increase in Personnel Expenses due to the addition of unbudgeted but needed staff. NERC and the other five Regions reported a reduction in these expenses, due to delays in hiring and other factors.
- **Meeting, Travel and Conference Call Expenses** – Total expenses reported for these three categories under Total Meeting Expenses were (\$1.1M) under budget. NERC and the Regions continue to make efforts to reduce these costs by utilizing webinars and conference calls in place of face-to-face meetings.
- **Operating Expenses** – Total Operating Expenses were under budget by (454.8k). Most of the expense categories under Operating Expenses were under budget, offset by an over budget variance for Depreciation, due to the fact that it was not included in the 2009 budget. Due to the broad range of activities recorded in this area, it is not possible to identify any recurring themes to support the under budgeted spend.
- **Indirect Expenses** – **Total Indirect Expenses for the period** were under budget by (\$1.5M). Related entirely to SPP RE's costs for overhead services, which are provided by SPP, Inc. and were under budget due to a decrease in the hourly rate charged for these services.
- **Other Non-Operating Expenses** – A variety of costs are recorded in both Actual and Budget, but the primary reasons for the under budget spend of (\$3.8M) relate to the (\$1.2M) under budget spend by WECC for interest expense associated with their line of credit, to NERC's and WECC's (\$2.4M) variance related to the budget to increase working capital reserves and NERC's collection of assessments from prior years.
- **Fixed Assets** – Over budget for the year by \$58,158.

**2009 TOTAL ERO SUMMARY**  
Consolidated Statement of Activities  
From 1/1/2009 to 12/31/2009  
(Unaudited)  
(In Whole Dollars)

	2009 Actual	2009 Budget	2009 Variance Over(Under)
<b>Funding</b>			
<b>ERO Funding</b>			
ERO Assessments	\$ 119,458,241	\$ 119,458,255	(14)
Penalty Sanctions	-	-	-
<b>Total ERO Funding</b>	<b>\$ 119,458,241</b>	<b>\$ 119,458,255</b>	<b>\$ (14)</b>
Membership Dues	\$ 946,941	\$ 857,572	89,369
Testing Fees	1,245,020	980,000	265,020
Services & Software	410,482	570,082	(159,600)
Workshops	1,457,610	1,444,970	12,640
Interest	547,258	965,593	(418,335)
Miscellaneous	311,519	9,300	302,219
<b>Total Funding</b>	<b>\$ 124,377,070</b>	<b>\$ 124,285,772</b>	<b>\$ 91,298</b>
<b>Expenses</b>			
<b>Personnel Expenses</b>			
Salaries	\$ 53,288,719	\$ 54,585,901	(1,297,182)
Payroll Taxes	3,409,259	4,088,394	(679,135)
Benefits	6,295,184	7,760,950	(1,465,765)
Retirement Costs	6,046,837	6,421,422	(374,586)
<b>Total Personnel Expenses</b>	<b>\$ 69,039,999</b>	<b>\$ 72,856,667</b>	<b>\$ (3,816,668)</b>
<b>Meeting Expenses</b>			
Meetings	\$ 2,856,464	\$ 3,541,466	(685,002)
Travel	5,571,524	6,180,662	(609,138)
Conference Calls	663,215	489,863	173,353
<b>Total Meeting Expenses</b>	<b>\$ 9,091,204</b>	<b>\$ 10,211,991</b>	<b>\$ (1,120,787)</b>
<b>Operating Expenses</b>			
Consultants & Contracts	\$ 14,902,383	\$ 16,124,716	(1,222,333)
Office Rent	3,547,204	3,662,740	(115,536)
Office Costs	5,981,944	6,242,463	(260,519)
Professional Services	6,072,966	6,363,543	(290,577)
Miscellaneous	154,034	47,278	106,756
Depreciation	1,403,921	76,540	1,327,381
<b>Total Operating Expenses</b>	<b>\$ 32,062,451</b>	<b>\$ 32,517,280</b>	<b>\$ (454,828)</b>
<b>Total Direct Expenses</b>	<b>\$ 110,193,653</b>	<b>\$ 115,585,937</b>	<b>\$ (5,392,284)</b>
<b>Indirect Expenses</b>	<b>\$ 1,782,208</b>	<b>\$ 3,256,442</b>	<b>\$ (1,474,234)</b>
<b>Other Non-Operating Expenses</b>	<b>\$ 4,220,790</b>	<b>\$ 7,985,013</b>	<b>\$ (3,764,223)</b>
<b>Total Expenses</b>	<b>\$ 116,196,651</b>	<b>\$ 126,827,392</b>	<b>\$ (10,630,741)</b>
<b>Change in Assets</b>	<b>\$ 8,180,419</b>	<b>\$ (2,541,620)</b>	<b>\$ 10,722,039</b>
<b>Fixed Assets</b>			
Depreciation	(1,403,921)	(76,540)	(1,327,381)
Computer & Software CapEx	3,299,937	2,084,932	1,215,005
Furniture & Fixtures CapEx	468,229	545,328	(77,099)
Equipment CapEx	481,226	444,750	36,476
Leasehold Improvements	771,935	560,788	211,147
<b>(Inc)Dec in Fixed Assets</b>	<b>\$ (3,617,406)</b>	<b>\$ (3,559,258)</b>	<b>\$ (58,148)</b>
<b>TOTAL CHANGE IN ASSETS</b>	<b>\$ 4,563,013</b>	<b>\$ (6,100,878)</b>	<b>\$ 10,663,891</b>
<b>FTEs</b>	424.8	454.7	(29.9)

## NERC BUDGET TO ACTUAL VARIANCE ANALYSIS AT DECEMBER 31, 2009

In connection with the filing of the updated 2009 budget in December, 2008, rather than seek an increase to assessments, NERC projected to use \$1,558,606 in working capital funds to pay for the increased personnel and consulting expenses contained in the revised budget. Preliminary, unaudited results for the year ended December 31, 2009 reflect an actual use of working capital funds of \$533,340 for a positive variance from budget of \$1.025M. At September 30, 2009, we expected total spending for expenses and capital expenditures to be under budget by \$741k by year end, with the potential for a reduction in these savings as a result of various compliance and critical infrastructure initiatives. However, as detailed below, while spending for those initiatives did indeed increase during the fourth quarter those increases were more than offset by increases in funding, a reduction in personnel costs and reduced spending for capital assets.

**TOTAL FUNDING** (Actual - \$433.0k over budget; September 30th Year End Projection - \$62.5k under budget) – The increase in Funding not projected at September 30, 2009 is primarily from two areas. First, there was a \$265k increase in testing fees which resulted from the implementation during the fourth quarter of revised testing fees, certificate renewals and continuing education fees to more closely recover the costs of operations of these programs, including recovery of overhead expenses. Second, \$275.9k of unbudgeted miscellaneous funding represents reimbursements of the cost for NERC to act as the compliance enforcement authority (CEA) within the FRCC, SPP, Texas RE and WECC Regions. This reimbursement, while required from a regulatory perspective, was not budgeted.

**EXPENSES** - Following is a description of the more significant variances to budgeted expenses:

- **Personnel Expenses** (Actual - \$87.7k under budget; September 30th Year End Projection - \$355.5k over budget)
  - Salaries - There were 109.4 FTEs on staff at the end of the fourth quarter versus a budget of 106.5. Salaries were over budget by \$228.7k as a result the 2.9 FTEs added over budget but were less than the September 30<sup>th</sup> projection due to the timing of the personnel additions.
  - Payroll Taxes were over budget by \$13.5k at the end of the year, representing a variance from budget of 1.5%.

- Employee benefits were (\$82.4k) under budget at December 31<sup>st</sup> primarily due to lower than budgeted group medical insurance rates, and the fact that not all new employees have enrolled in the plan.
- Savings and Retirement expenses were under budget by (\$247.4k) at December 31<sup>st</sup> as a result of a lower bonus pool for staff employed as of January 1, 2009, and unanticipated attrition, which resulted in forfeiture of employer contributions that were not vested. As a result of the waiting period for eligibility for new hires, the FTEs added over budget have not adversely impacted this under spend.
- **Meeting, Travel and Conference Call Expenses** (Actual - \$231.1k over budget; September 30<sup>th</sup> Year End Projection - \$54.0k over budget)
  - **Meetings** – Actual spend for meetings was \$0.5k over budget, however, taking into account the \$111.8k in workshop fees received, the total cost of meetings and workshops was under budget by (\$111.3k)
  - **Travel** - Travel expense was \$40.7k over budget for a variance of 2.2%. We will continue to focus on this area in 2010 to reduce costs.
  - **Conference Calls** – Conference calls and webinars were used in 2009 to hold down the cost of Meetings and Travel. In late 2009, NERC replaced the services provided by Webex and Intercall with services from ReadyTalk at significantly lower costs.
- **Operating Expenses** (Actual - \$1.5M over budget; September 30<sup>th</sup> Year End Projection - \$1.0M over budget)
  - **Rent** – \$98.4k over budget as of December 31<sup>st</sup> due to an increase in utilities costs and a true-up of operating expenses for the Princeton office which were not budgeted.
  - **Contracts** – Actual \$49.9k over budget; September 30<sup>th</sup> Year End Projection \$192.7k over budget. A detailed analysis of spend versus budget by contract follows this document. We will be further focusing on this expense category in 2010. Significant variances to note are as follows:
    - Costs associated with the NERCnet or frame relay network ran over budget throughout 2009. The 2009 budget for this contract was not reflective of actual costs and there were some cost increases during the course of the year. At year end, NERCnet expenses, net of billing to users were \$241.6k over budget.
    - Contractual spend for assistance with various assessment studies was under budget by (\$64.8k).
    - Contracted spend for a variety of reliability tools was under budget by (\$85.0k).

- The Training and Education Program was under budgeted spend for various projects by (\$184.5k) as a result of cost containment measures.
- The Situation Awareness and Infrastructure Security Program contracted to develop a secure alert system that was not budgeted in 2009. The unbudgeted spend for this project was \$116.2k in 2009, with additional costs to be incurred in 2010. (Note: While the cost of this system is reflected under 'Contracts' for the purposes of this report, we anticipate that it will be reported as capitalized software in the final, audited financial statements.)
- **Consultants** - (Actual - \$334.2k under budget; September 30th Year End Projection - \$856.8k under budget) A detailed analysis of consulting spend versus budget follows this document. This is another area of focus in 2010. Significant variances to note are as follows:
  - The Compliance Program was \$436.7k over budget. This over spend is attributed to the implementation of the triennial Regional Entity audit requirement, which was over budget by \$496.2k in 2009. The over spend on this project was related to higher than anticipated costs per Region and the cost of developing the agreed upon procedures to be used in the audits, which was not considered when the budget was developed. Spend for the C-RATS (Compliance) database was over budget by \$110.2k, primarily due to unbudgeted costs to add the CITS/ERC Portal to support NERC's CEA Activities. (Note: While the cost of the C-RATS database are reflected under 'Consultants' for purposes of this report, we anticipate that most if not all of these costs will be reported as capitalized software in the final, audited financial statements.); Spend for subject matter experts needed in support of compliance violation investigations was under budget by (\$236.9k).
  - Spend on the NASPI project was (\$550.6k) under budget in 2009 as a result of a delays in implementation of the scope of portions of this project.
  - Regulatory (\$865.4k) under budget due to lower consulting and outside costs associated with completing the 3-year ERO assessment.
- **Office Costs** – (Actual - \$628.1k over budget; September 30th Year End Projection - \$515.7k over budget)
  - Computer supplies and maintenance was over budget by \$267.5k. However, this should be viewed in the context of the (\$295.7k) under spend in capitalized computer hardware, software and equipment as detailed under Fixed Assets on the Statement of Activities. The budgets for these line items should be added to computer supplies and maintenance in order to provide an accurate



comparison of total computer supplies and maintenance costs, since the final cost of an item determines whether it is capitalized or expensed and the allocation for budget purposes between these line items is really not the relevant frame of reference to review total costs compared to budget. Finance and IT have been working together to incorporate the capitalization policy in detailed budget worksheets so that future budgets more closely reflect actual spend.

- Internet expense is \$198.3k over budget due to three initiatives which were not budgeted; the expansion of bandwidth and added carrier redundancy at NERC's Princeton office; expanded bandwidth and dedicated circuits between the Princeton and DC offices; and increased bandwidth between Princeton and the Carteret, NJ back-up location.
- Sales and Use Taxes were \$49.0k over budget as a result of an audit by the State of NJ in the second half of 2008 which revealed that sales tax was not being charged by numerous vendors. We will also focus on this expense in 2010.
- **Professional Services** – (Actual - \$401.8k over budget; September 30th Year End Projection - \$290.4k over budget)
  - Trustee fees are over budget \$175.0k due to added meetings and conference calls associated with the 3-Year ERO Assessment and executive and trustee searches.
  - Trustee search fees of \$179.4k were not budgeted.
  - The remaining variance was due to an increase in the cost of the external audit fee, and increase in business insurance and an over run in outside legal fees.
- **Depreciation Expense** (Actual - \$563.8k over budget; September 30th Year End Projection - \$560.6k over budget) – Depreciation expense was not a budgeted item in 2009, as the Statement of Activities was a 'cash basis' report.
- **Other Non-Operating Expense** - This line item in the 2009 Budget represented the increase in assessments to fund the working capital reserve and to recover uncollected assessments from prior years.
- **Fixed Assets** (Actual - \$698.7k under budget; September 30th Year End Projection - \$703.7k under budget)
  - Capital expenditures for computer and software needs were under budget by (\$560.1k). However, as discussed above under Office Costs, this variance should be viewed in the context of the over budget spend of \$267.5k for Computer Supplies and Maintenance (recorded in Office Costs) and the over budget spend of \$264.5k for Equipment (recorded in

Fixed Assets) to provide an accurate comparison of actual to budgeted costs. Total under budget spend for these three line items was (\$28.1k).

- Situation Awareness spent \$84.2k against a budget of \$125.0k, for an under spend of (\$40.8k) to build-out space in the Princeton, NJ office for ES-ISAC operations. The budget for this project was all in Furniture and Fixtures. Actual costs are charged to Furniture and Fixtures, Equipment and Leasehold Improvements.
- The unplanned but necessary expansion of the DC office added \$115.5k to Furniture and Fixtures and \$100.1k to Leasehold Improvements.
- Also contributing to the under spend was the reversal of depreciation expense. Depreciation expense is reversed because it is a non-cash item and funding is not requested to support depreciation expense.

**NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION**  
**Statement of Activities**  
**From 1/1/2009 through 12/31/2009**

**(Unaudited)**

<b>Consolidated</b>	<b>2009 Actual</b>	<b>2009 Budget</b>	<b>2009 Actual Variance from Budget</b>
<b>Funding</b>			
Assessments	31,925,050	31,925,049	1
Membership Fees	945,941	857,572	88,369
Testing	1,245,020	980,000	265,020
Services & Software	363,735	485,000	(121,265)
Workshop Fees	111,800	-	111,800
Interest	13,221	200,000	(186,779)
Miscellaneous	275,890	-	275,890
<b>Total Funding</b>	<b>34,880,656</b>	<b>34,447,621</b>	<b>433,036</b>
<b>Expenses</b>			
<b>Personnel Expenses</b>			
Salaries	15,185,794	14,957,116	228,678
Payroll Taxes	916,680	903,209	13,471
Employee Benefits	1,591,248	1,673,686	(82,437)
Savings & Retirement	1,818,262	2,065,661	(247,400)
<b>Total Personnel Expenses</b>	<b>19,511,984</b>	<b>19,599,671</b>	<b>(87,688)</b>
<b>Meeting Expenses</b>			
Meetings	719,813	719,320	493
Travel	1,889,626	1,848,938	40,688
Conference Calls	378,755	188,872	189,883
<b>Total Meeting Expenses</b>	<b>2,988,195</b>	<b>2,757,130</b>	<b>231,065</b>
<b>Operating Expenses</b>			
Rent & Improvements	809,921	711,523	98,398
Contracts	3,322,866	3,273,000	49,866
Consultants	4,620,053	4,954,270	(334,217)
Office Costs	1,526,534	898,386	628,148
Professional Services	1,761,776	1,360,000	401,776
Miscellaneous	72,340	4,000	68,340
Depreciation	563,795	-	563,795
<b>Total Operating Expenses</b>	<b>12,677,284</b>	<b>11,201,179</b>	<b>1,476,105</b>
<b>Other Non-Operating Expenses</b>	<b>-</b>	<b>1,393,496</b>	<b>(1,393,496)</b>
<b>Total Expenses</b>	<b>35,177,462</b>	<b>34,951,476</b>	<b>225,986</b>
<b>Net Change in Assets</b>	<b>(296,806)</b>	<b>(503,856)</b>	<b>207,050</b>
<b>Fixed Assets</b>			
Depreciation	(563,795)	-	(563,795)
Computer & Software CapEx	229,606	789,750	(560,144)
Furniture & Fixtures CapEx	146,196	265,000	(118,804)
Equipment CapEx	264,478	-	264,478
Leasehold Improvements	160,049	-	160,049
<b>(Incr)Dec in Fixed Asstes</b>	<b>(236,534)</b>	<b>(1,054,750)</b>	<b>818,216</b>
<b>TOTAL CHANGE IN ASSETS</b>	<b>(533,340)</b>	<b>(1,558,606)</b>	<b>1,025,266</b>
<b>FTE's</b>	<b>109.4</b>	<b>106.5</b>	<b>2.9</b>

**NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION**  
**2009 Consulting and Contracts Detail**

			2009 Budget	2009 ACTUAL	2009 Variance to Budget Over(Under)
<b>Consultants</b>					
65000	Department	PROJECT			
300	Reliability Standards	Subject Matter Experts -CIP Std Development	550,000	784,915	234,915
400	CORC	Compliance Program Audit	50,000	117,116	67,116
400	CORC	Subject Matter Experts	300,000	63,120	(236,880)
401	CORC	RE Compliance Audit	250,000	746,214	496,214
403	CORC	Compliance Database (C-RATS)	500,000	610,247	110,247
600	Personnel Certification	PCGC Advanced Certification (2010 spend)	15,000		(15,000)
900	Training & Ed	Training and Education	40,000	34,772	(5,228)
700	Reliability Readiness	Reliability Readiness		12,000	12,000
801	Assessments	CO2 Impact Study	100,000	77,002	(22,998)
802	Event Analysis	Event Analysis	150,000	272,869	122,869
805	TADS	TADS	126,270	154,746	28,476
1000	SAIS	Various unbudgeted consultants		264,672	264,672
1001	SAIS	NA Synchro Phasor Initiative (NASPI)	1,453,000	902,351	(550,649)
2000	G&A	Communications		8,103	8,103
2200	Regulatory	2009 Self-Assessment	1,050,000	184,646	(865,354)
2300	IT	Information Technology	125,000	151,500	26,500
2300	IT	CIP Audit	75,000	31,950	(43,050)
2300	IT	Wide Area network design and implementation	70,000		(70,000)
2400	HR	Succession Planning	100,000	185,423	85,423
2400	HR	HR Information System		2,068	2,068
2500	AF	Payroll and HRIS Implementation		12,402	12,402
2500	AF	Meeting planning database		3,938	3,938
<b>Consultants Total</b>			\$ 4,954,270	\$ 4,620,053	\$ (334,217)

**NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION**  
**2009 Consulting and Contracts Detail**

			2009 Budget	2009 ACTUAL	2009 Variance to Budget Over(Under)
			Contracts		
<b>65100</b>	<b>Department</b>	<b>PROJECT</b>			
801	Assessments	Assessment Studies	100,000	35,190	(64,810)
803	Benchmarking	Benchmarking		4,167	4,167
804	GADS	GADS Programming Support	135,000	176,326	41,326
805	TADS	TADS Development-Phase I	150,000	130,500	(19,500)
1000	SAIS	RCIS Support	20,000		(20,000)
1000	SAIS	Resource Adequacy Tool (Srv. Agreement)	75,000	75,000	-
1000	SAIS	Inadvertent Interchange (Srv. Agreement)	30,000	35,000	5,000
1000	SAIS	AIE Monitoring (Srv. Agreement)	15,000	15,000	-
1000	SAIS	CPS1-BA ACE Limit Monitoring (Srv. Agreement)	35,000	35,000	-
1000	SAIS	Frequency Monitoring (Srv. Agreement)	40,000	40,000	-
1000	SAIS	Intelligent Alarms/DARA (Srv. Agreement)	40,000	40,000	-
1000	SAIS	Resources Subcommittee Maintenance	120,000	30,000	(90,000)
1000	SAIS	Secure Alerting System		116,224	116,224
2200	Regulatory	Canadian Affairs Representative	108,000	86,476	(21,524)
<b>65100</b>		<b>Education and Training</b>			
600	Personnel Certification	System Operator Testing Expenses	59,400	83,842	24,442
600	Personnel Certification	Exam Scoring & Development		31,712	31,712
600	Personnel Certification	SO Job Analysis	15,000	22,816	7,816
600	Personnel Certification	System Operator Examination Development	92,000	39,576	(52,425)
600	Personnel Certification	Database Development	30,000	34,762	4,762
600	Personnel Certification	French Translation Exam		(93)	(93)
900	Training & Ed	Database Development	30,000	34,762	4,762
900	Training & Ed	Course Dev.-Compliance, Standards and Readiness	125,000	12,650	(112,350)
900	Training & Ed	NERC Staff Training	40,000		(40,000)
900	Training & Ed	Design a Course	15,000	10,949	(4,051)
<b>65100 - CONTRACTS TOTAL</b>			<b>1,274,400</b>	<b>1,089,858</b>	<b>(184,542)</b>

**NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION  
2009 Consulting and Contracts Detail**

		Contracts	2009 Budget	2009 ACTUAL	2009 Variance to Budget Over(Under)
<b>65200</b>					
	<b>Contracts - IDC Total</b>		<b>\$ 1,686,600</b>	<b>\$ 1,679,426</b>	<b>\$ (7,174)</b>
<b>65300</b>					
<b>46100 1000</b>	Frame Relay Billing		(672,000)	(617,589)	54,411
<b>1000</b>	S AIS Frame Relay Expenses		984,000	1,171,172	187,172
	<b>Contracts - Frame Relay</b>		<b>\$ 312,000</b>	<b>\$ 553,583</b>	<b>\$ 241,583</b>
	<b>Contracts Total</b>		<b>\$ 3,273,000</b>	<b>\$ 3,322,866</b>	<b>\$ 49,866</b>
	<b>Total Consultants and Contracts</b>		<b>\$ 8,227,270</b>	<b>\$ 7,942,919</b>	<b>\$ (284,351)</b>

**2009 REGIONAL ENTITY SUMMARY**

Consolidated Statement of Activities

From 1/1/2009 to 12/31/2009

(Unaudited)

(In Whole Dollars)

	2009 YTD Actual	2009 YTD Budget	2009 YTD Variance Over(Under)
<b>Funding</b>			
<b>ERO Funding</b>			
ERO Assessments	\$ 87,533,191	\$ 87,533,207	(16)
Penalty Sanctions	\$ -		-
<b>Total ERO Funding</b>	<u>\$ 87,533,191</u>	<u>\$ 87,533,207</u>	<u>\$ (16)</u>
Membership Dues	1,000	-	1,000
Testing Fees	-	-	-
Services & Software	46,747	85,082	(38,335)
Workshops	1,345,810	1,444,970	(99,160)
Interest	534,037	765,593	(231,556)
Miscellaneous	35,629	9,300	26,329
<b>Total Funding</b>	<u>\$ 89,496,414</u>	<u>\$ 89,838,152</u>	<u>\$ (341,738)</u>
<b>Expenses</b>			
<b>Personnel Expenses</b>			
Salaries	\$ 38,102,925	\$ 39,628,785	(1,525,860)
Payroll Taxes	2,492,579	3,185,185	(692,606)
Benefits	4,703,936	6,087,264	(1,383,328)
Retirement Costs	4,228,575	4,355,761	(127,186)
<b>Total Personnel Expenses</b>	<u>\$ 49,528,015</u>	<u>\$ 53,256,995</u>	<u>\$ (3,728,980)</u>
<b>Meeting Expenses</b>			
Meetings	\$ 2,136,651	\$ 2,822,146	(685,495)
Travel	3,681,898	4,331,724	(649,826)
Conference Calls	284,460	300,991	(16,531)
<b>Total Meeting Expenses</b>	<u>\$ 6,103,009</u>	<u>\$ 7,454,861</u>	<u>\$ (1,351,852)</u>
<b>Operating Expenses</b>			
Consultants & Contracts	\$ 6,959,464	\$ 7,897,446	(937,982)
Office Rent	2,737,283	2,951,217	(213,934)
Office Costs	4,455,410	5,344,077	(888,667)
Professional Services	4,311,190	5,003,543	(692,353)
Miscellaneous	81,694	43,278	38,416
Depreciation	840,126	76,540	763,586
<b>Total Operating Expenses</b>	<u>\$ 19,385,167</u>	<u>\$ 21,316,101</u>	<u>\$ (1,930,934)</u>
<b>Total Direct Expenses</b>	<u>\$ 75,016,191</u>	<u>\$ 82,027,957</u>	<u>\$ (7,011,766)</u>
<b>Indirect Expenses</b>	<u>\$ 1,782,208</u>	<u>\$ 3,256,442</u>	<u>\$ (1,474,234)</u>
<b>Other Non-Operating Expenses</b>	<u>\$ 4,220,790</u>	<u>\$ 6,591,517</u>	<u>\$ (2,370,727)</u>
<b>Total Expenses</b>	<u>\$ 81,019,189</u>	<u>\$ 91,875,916</u>	<u>\$ (10,856,727)</u>
<b>Change in Assets</b>	<u>\$ 8,477,225</u>	<u>\$ (2,037,764)</u>	<u>\$ 10,514,989</u>
<b>Fixed Assets</b>			
Depreciation	(840,126)	(76,540)	(763,586)
Computer & Software CapEx	3,070,331	1,295,182	1,775,149
Furniture & Fixtures CapEx	322,033	365,328	(43,295)
Equipment CapEx	216,748	359,750	(143,002)
Leasehold Improvements	611,886	560,788	51,098
<b>(Inc)Dec in Fixed Assets</b>	<u>\$ (3,380,872)</u>	<u>\$ (2,504,508)</u>	<u>\$ (876,364)</u>
<b>TOTAL CHANGE IN ASSETS</b>	<u>\$ 5,096,353</u>	<u>\$ (4,542,272)</u>	<u>\$ 9,638,625</u>
<b>FTEs</b>	315.4	348.2	(32.8)



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## 2009 Fourth Quarter Year to Date Budget Variance Explanations

### Statutory Funding

Total Actual Over Budget \$8k:

Software Maintenance pass throughs were not budgeted in 2009.

### Statutory Expenditures

Total Over Budget \$103k

#### Statutory Personnel Expenses

Total Actual Over Budget \$230k:

More time was spent in Compliance, Training and Situational Awareness than was budgeted. Base salaries for the additions to staff for Compliance were more than budgeted. Benefits are up due to moving costs, health insurance, and the associated payroll related items due to hiring at increased salaries.

#### Statutory Meeting Expenses

Total Actual Under Budget \$(102k):

Compliance and Reliability Assessment travel expenses have not been as much as expected and budgeted. Additionally, the costs for the Compliance Workshops and SOS Training were over budgeted.

#### Statutory Operating Expenses

Total Actual Over Budget \$148k

The cost of the legal fees associated with the FERC audit were not budgeted.

#### Fixed Assets

Total Actual Under Budget \$(165k):

Consortium Software was over budgeted and not completed as timely as expected and the Situational Awareness for FERC, NERC and the Regional Entity Project (SFNR) software and hardware that was not budgeted.



**Florida Reliability Coordinating Council, Inc.**  
**Statement of Activities - Total Actual To Total Budget**  
**Statutory Only**  
**December 31, 2009**  
(Unaudited)

*(In Whole Dollars)*

	2009 YTD Actual	2009 YTD Budget	2009 YTD Variance
<b>Funding</b>			
<b>ERO Funding</b>			
ERO Assessments	3,898,438	\$ 3,898,438	(0)
Penalty Sanctions	-	-	-
<b>Total ERO Funding</b>	<u>\$ 3,898,438</u>	<u>\$ 3,898,438</u>	<u>\$ (0)</u>
Membership Dues	-	-	-
Testing Fees	-	-	-
Services & Software	10,080	-	10,080
Workshops	77,293	79,430	(2,137)
Interest	-	-	-
Miscellaneous	200	-	200
<b>Total Funding</b>	<u>\$ 3,986,011</u>	<u>\$ 3,977,868</u>	<u>\$ 8,143</u>
<b>Expenses</b>			
<b>Personnel Expenses</b>			
Salaries	\$ 2,177,677	\$ 2,017,775	159,902
Payroll Taxes	131,743	131,090	653
Benefits	240,456	198,778	41,678
Retirement Costs	311,276	283,799	27,477
<b>Total Personnel Expenses</b>	<u>\$ 2,861,152</u>	<u>\$ 2,631,442</u>	<u>\$ 229,710</u>
<b>Meeting Expenses</b>			
Meetings	\$ 67,575	\$ 118,387	(50,812)
Travel	154,144	206,860	(52,716)
Conference Calls	12,622	10,598	2,024
<b>Total Meeting Expenses</b>	<u>\$ 234,341</u>	<u>\$ 335,845</u>	<u>\$ (101,504)</u>
<b>Operating Expenses</b>			
Consultants & Contracts	\$ 150,302	\$ 287,472	(137,170)
Office Rent	256,172	236,875	19,297
Office Costs	79,747	181,292	(101,545)
Professional Services	270,609	103,843	166,766
Miscellaneous	12,174	(13,051)	25,225
Depreciation	175,581	-	175,581
<b>Total Operating Expenses</b>	<u>\$ 944,584</u>	<u>\$ 796,431</u>	<u>\$ 148,153</u>
<b>Total Direct Expenses</b>	<u>\$ 4,040,076</u>	<u>\$ 3,763,718</u>	<u>\$ 276,358</u>
<b>Other Non-Operating Expenses</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Total Expenses</b>	<u>\$ 4,040,076</u>	<u>\$ 3,763,718</u>	<u>\$ 276,358</u>
<b>Change in Assets</b>	<u>\$ (54,065)</u>	<u>\$ 214,150</u>	<u>\$ (268,215)</u>
<b>Fixed Assets</b>			
Depreciation	(175,581)	-	(175,581)
Computer & Software CapEx	122,808	-	122,808
Furniture & Fixtures CapEx	5,110	214,150	(209,040)
Equipment CapEx	96,515	-	96,515
Leasehold Improvements	-	-	-
<b>Change in Fixed Assets</b>	<u>\$ 48,852</u>	<u>\$ 214,150</u>	<u>\$ (165,298)</u>
<b>TOTAL CHANGE IN ASSETS</b>	<u>\$ (102,917)</u>	<u>\$ -</u>	<u>\$ (102,917)</u>
<b>FTEs</b>	18.21	18.34	(0.13)



January 22, 2009

To: Michael Walker, NERC

Cc: MRO Finance and Audit Committee  
Susan Turpen, NERC  
Dan Skaar, MRO

From: Sue Clarke, MRO

Subject: Statement of Activity – Fourth Quarter Actual to Budget through December 31, 2009 - Preliminary and Unaudited

Based upon the preliminary and unaudited financial results, Midwest Reliability Organization actual costs are in line with budget (under 2%). MRO staff believes that the continued efforts in rationalized cost reductions have been helpful to balance the budget; however, MRO staff believes that 2010 will be even tighter than 2009.

#### Funding

Revenues are \$7,417 over budget on a year to date basis. Revenues for compliance information system were not budgeted in the 2009 Funding. Please note that the 2009 Budget Funding includes the Supplemental Funding Request that was filed with a number of regulators and approved by all, and lastly, approved by FERC in October, 2009. The Supplemental Funding Request for the termination of the multiple-employer defined benefit pension plan by the plan sponsor whereby MRO was required to make final distributions to the plan participants according to the rules. MRO replaced this plan with a defined contribution plan effective January 1, 2009.

#### Expenses

Expenses are (\$106,322) under budget on a year to date basis. The following are the major areas of budget variances:

- (\$308,192) – Salary and Fringes under budget. Budgeted amounts for the entire year show 22.9 FTE's. As of the end of December, we have 25.18 FTE's. The budgeted underage is largely the result of the timing of additional FTE's.
- (\$26,184) – Meeting expenses are under budget due to significant 2009 cost reductions in the conference bridge and meeting expenses. Travel costs are over budget by \$30,124.
- \$196,422 – Operating expenses year to date are over budget as a result of the change in the accounting methodology which recognizes depreciation expense which was not included in the original 2009 budget. The net impact is zero since funding is not being requested





for depreciation expense (over budget by \$270,805) it has been deducted from the funding requirement for capital expenditures ("Fixed Assets").

- \$31,632 –Other Non-Operating Expenses, as explained above, is the Supplemental Funding Request for the termination of the multiple-employer defined benefit pension plan by the plan sponsor whereby MRO was required to make final distributions to the plan participants according to the rules. MRO replaced this plan with a defined contribution plan effective January 1, 2009. The \$31,632 is over budget due to the timing of the estimated payout calculated earlier in the year, as opposed to the actual payout in December 2009.

#### Capital Budget

- (\$40,568) – Capital expenditures ("Fixed Assets") expenses year to date are under budget. The (\$40,568) is inclusive of the depreciation expense of (\$270,805), which is an adjustment that recognizes GAAP as explained above.

**Midwest Reliability Organization**  
**Statement of Activity**  
**From 1/1/2009 to 12/31/2009**  
**(Unaudited)**

	2009 YTD Actual	2009 YTD Budget (Include Supplemental)	2009 YTD Variance
<b>Funding</b>			
Assessments	\$6,376,475	6,376,475	0
Services & software	36,667	0	36,667
Workshops	0	29,250	(29,250)
Non-Operating Assessment	1,120,000	1,120,000	0
<b>Total Funding</b>	<b>\$7,533,142</b>	<b>\$7,525,725</b>	<b>\$7,417</b>
<b>Expenses</b>			
<b>Personnel Expenses</b>			
Salaries	\$2,653,383	\$ 2,994,799	(\$341,416)
Payroll taxes	195,668	509,116	(313,448)
Employee Benefits	469,613	239,584	230,029
Retirement Benefits	625,759	509,116	116,643
<b>Total Personnel Expenses</b>	<b>\$3,944,423</b>	<b>\$4,252,615</b>	<b>(\$308,192)</b>
<b>Meeting Expense</b>			
Meetings	\$97,095	\$119,390	(\$22,295)
Travel	335,244	305,120	30,124
Conference Calls	16,427	50,440	(34,013)
<b>Total Meeting Expense</b>	<b>\$448,766</b>	<b>\$474,950</b>	<b>(\$26,184)</b>
<b>Operating Expenses</b>			
Consulting	\$413,003	\$554,860	(\$141,857)
Contracts	60,399	109,500	(49,101)
Building Rent & Improvements	150,656	170,000	(19,344)
Office Costs	395,055	313,870	81,185
Professional Services	209,664	154,930	54,734
Depreciation	270,805	0	270,805
<b>Total Operating Expenses</b>	<b>\$1,499,582</b>	<b>\$1,303,160</b>	<b>\$196,422</b>
<b>Other Non-Operating Expenses</b>	<b>\$1,151,632</b>	<b>\$1,120,000</b>	<b>31,632</b>
<b>Total Expense</b>	<b>\$7,044,403</b>	<b>\$7,150,725</b>	<b>(\$106,322)</b>
<b>Change in Assets</b>	<b>\$488,739</b>	<b>\$375,000</b>	<b>\$113,739</b>
<b>Fixed Assets</b>			
Depreciation	(\$270,805)	\$0	(\$270,805)
Computer Equipment	363,532	317,400	46,132
Capitalized Software	193,228		193,228
Furniture and Equipment	46,089	57,600	(11,511)
Leasehold Improvements	2,388		2,388
<b>Change in Fixed Assets</b>	<b>\$334,432</b>	<b>\$375,000</b>	<b>(\$40,568)</b>
<b>TOTAL CHANGE IN ASSETS</b>	<b>\$154,307</b>	<b>\$0</b>	<b>\$154,307</b>
<b>Headcount</b>	<b>25.18</b>	<b>26.50</b>	<b>(1.32)</b>
<b>Nosecount</b>	<b>28.00</b>	<b>28.00</b>	<b>-</b>



NORTHEAST POWER COORDINATING COUNCIL, INC.  
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## NPCC Regional Entity Division Budget to Actual Variance Comparison at December 31, 2009

### INCOME

- **Interest Income** (Actual of \$11,871 recorded on Balance Sheet but not included in 2009 NPCC Budget – returns on 100% U.S. treasury security fund and corporate money market funds for 2009 were minimal for operating funds investments)
  - NPCC allocated a portion of total interest income (90% of \$13,190) to the regional entity division consistent with the ratio of regional entity (RE) to criteria services (CS) division funding. A common system of accounts, with divisional separation, was used for both RE and CS revenue tracking and financial reporting.

### EXPENSES

- **Personnel Expenses** (Actual - \$398k under budget)
  - Under budget in the aggregate as a result of staffing challenges and accrual of less than budgeted incentive at-risk compensation which was earned in 2009 and will be considered by the NPCC Board in February, 2010, offsetting increased retirement funding requirements due to the impact of the economic downturn on pension plan investments.
- **Meetings** (Actual - \$39k under budget)
  - Under budget due to successful efforts to keep meeting costs down by holding more meetings via teleconference as well as meeting space rental rate renegotiations.
- **Travel** (Actual - \$130k under budget)
  - Advance bookings, adjustments to class of hotel being used, along with on-site meetings and meetings by teleconference, kept expenditures considerably under budget for 2009.
- **Conference Calls** (Actual \$41k over budget)
  - The increased use of conference calls throughout 2009 significantly reduced overall meeting and travel expenses during the year.
- **Contract & Consultants** (Actual - \$241k over budget)
  - Expenses were over budget due to Board authorized but unbudgeted expenditures associated with the Bulk Electric System Bright Line impact assessment, the Regional Entity Operational Awareness project in which near real time data is reported, and gap analysis activities associated with NERC's early 2009 developed agreed upon procedures (AUPs) utilized for performance assessment of NPCC responsibilities under the Regional Delegation Agreement. With the office relocation successfully deployed early and under budget and personnel costs lower than anticipated, unfunded but approved activities were offset by under expenditure in various other sub-accounts.
- **Office Rent** (Actual – \$48k under budget)
  - NPCC was able to negotiate some \$200,000 plus in free rent related to fiscal 2009 and 2010 budgets in association with its execution of a new lease for the relocated offices. Additionally, NPCC was able to

negotiate for lower rental rate post Board approval of an appropriate cost per square foot threshold. The under budget of 48k is due in part to required straight line accounting treatment and the obligation to spread savings over the fifteen year lease term in addition to improved lease terms.

- **Office Costs** (Actual - \$60k over budget)
  - In order to provide long term savings and to be consistent with the practices of other regional entities, NPCC purchased laptops for its employees upon lease expiration of older equipment.
- **Professional Services** (Actual - \$67k under budget)
  - Under budget due to judicious use of outside counsel resulting in lower Legal Fees than budgeted. Additionally, NPCC did not conduct any compliance hearings during 2009. If such hearings had been required, they would have been funded out of operating cash reserves as there was no budget for hearings.
- **Other Non-Operating Expenses** (Actual – \$93k under budget)
  - Office Relocation expenses were under budget due to favorable timing, improved negotiated terms associated with the economic downturn.
- **Furniture & Fixtures CapEx** (Actual - \$54k under budget)
  - Expenses were under budget due to downscale of office furnishings as well as negotiated discounts.
- **Equipment CapEx** (Actual - \$25k under budget)
  - Expenses were under budget due to cost efficient equipment deployment without change in functionality as well as negotiated discounts.
- **Leasehold Improvements** (Actual - \$220k under budget)
  - Under budget due to the effects of straight line accounting and negotiated landlord concessions.

*(Unaudited)*  
*Resubmitted January 22<sup>nd</sup>, 2010*



Northeast Power Coordinating Council, Inc. - Regional Entity Division  
Statement of Activities

(unaudited)

January 1st - December 31st, 2009

(In Whole Dollars)

NPCC REGIONAL ENTITY DIVISION 4th QUARTER RESULTS 2009	2009 YTD Actual	2009 YTD Budget	2009 YTD Variance Over(Under)
<b>Funding</b>			
<b>ERO Funding</b>			
ERO Assessments	\$ 10,008,885	\$ 10,008,885	0
Penalty Sanctions	-	-	-
<b>Total ERO Funding</b>	<b>\$ 10,008,885</b>	<b>\$ 10,008,885</b>	<b>\$ 0</b>
Membership Dues	\$ -	\$ -	-
Testing Fees	-	-	-
Services & Software	-	-	-
Workshops	-	-	-
Interest	11,871	-	11,871
Miscellaneous	-	-	-
<b>Total Funding</b>	<b>\$ 10,020,756</b>	<b>\$ 10,008,885</b>	<b>\$ 11,871</b>
<b>Expenses</b>			
<b>Personnel Expenses</b>			
Salaries	\$ 3,273,613	\$ 3,671,371	(397,758)
Payroll Taxes	206,641	200,528	6,113
Benefits	650,934	794,236	(143,302)
Retirement Costs	664,234	527,311	136,923
<b>Total Personnel Expenses</b>	<b>\$ 4,795,422</b>	<b>\$ 5,193,446</b>	<b>\$ (398,024)</b>
<b>Meeting Expenses</b>			
Meetings	\$ 149,926	\$ 188,686	(38,760)
Travel	620,626	750,510	(129,884)
Conference Calls	95,157	53,877	41,280
<b>Total Meeting Expenses</b>	<b>\$ 865,709</b>	<b>\$ 993,073</b>	<b>\$ (127,364)</b>
<b>Operating Expenses</b>			
Consultants & Contracts	\$ 1,223,570	\$ 982,400	241,170
Office Rent	506,309	554,683	(48,374)
Office Costs	326,826	267,060	59,766
Professional Services	704,881	771,862	(66,981)
Computer Equipment & Leases	136,357	133,315	3,042
Miscellaneous	32,387	27,300	5,087
Depreciation	112,622	-	112,622
<b>Total Operating Expenses</b>	<b>\$ 3,042,952</b>	<b>\$ 2,736,621</b>	<b>\$ 306,332</b>
<b>Total Direct Expenses</b>	<b>\$ 8,760,670</b>	<b>\$ 9,073,141</b>	<b>\$ (312,471)</b>
<b>Other Non-Operating Expenses</b>	<b>\$ 56,587</b>	<b>\$ 150,001</b>	<b>\$ (93,414)</b>
<b>Total Expenses</b>	<b>\$ 8,760,670</b>	<b>\$ 9,073,141</b>	<b>\$ (312,471)</b>
<b>Change in Assets</b>	<b>\$ 1,260,086</b>	<b>\$ 935,744</b>	<b>\$ 324,342</b>
<b>Fixed Assets</b>			
Depreciation	(112,622)	-	(112,622)
Computer & Software CapEx	-	-	-
Furniture & Fixtures CapEx	173,603	227,728	(54,125)
Equipment CapEx	120,233	145,600	(25,367)
Leasehold Improvements	340,446	560,788	(220,342)
<b>Change in Fixed Assets</b>	<b>\$ (521,659)</b>	<b>\$ (934,115)</b>	<b>\$ 412,456</b>
<b>TOTAL CHANGE IN ASSETS</b>	<b>\$ 738,427</b>	<b>\$ 1,629</b>	<b>\$ 736,798</b>
<b>FTEs*</b>	<b>23.4</b>	<b>27.2</b>	<b>(3.8)</b>

\*The NPCC 2009 Business Plan and Budget included 3.8 independent contractors in the Regional Entity division FTE count. To promote consistency with NERC and the other Regional Entities, NPCC removed independent contractors from its FTE count during 2009.



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February 4, 2010

Michael Walker  
North American Electric Reliability Corporation  
116-390 Village Blvd.  
Princeton, NJ 08540-5721

***Subject: Statement of Activities Variance Report for the Quarter ending 12/31/09***

Dear Mr. Walker:

As requested, please find the following information:

1. ReliabilityFirst Corporation 2009 Statement of Activities (attached.)
2. Significant variances explained at the statutory level (see below.)

**Significant Variances:**

Actual ended the year \$545K (4.76%) under budget. Although the overall variance is within 5%, ReliabilityFirst experienced large swings within various categories. The major contributors were Savings & Retirement Costs, Meeting Expenses, Contracts & Consultants, Professional Services and Computer Hardware & Software.

**Funding:**

Actual ended the year \$23K (0.26%) under budget.

**Investment Income** \$24K (30.56%) under budget for the year.  
Due to reduced market rates, the actual interest earned was lower than expected.

**Personnel Expenses:**

Actual ended the year \$505K (6.62%) under budget.

**Savings & Retirement Costs** \$167K (17.44%) under budget for the year.  
ReliabilityFirst budgets conservatively by assuming employees will participate fully in their 401(k) account. Due to the market conditions of 2009, many employees reduced their 401(k) participation, which reduced company match. This, along with lag in hiring employees for compliance as compared to budget, caused the variance.

**Meeting Expenses:**

Actual ended the year \$281K (30.42%) under budget.  
Meeting Expenses are down due to the use of ReliabilityFirst's virtual meeting capabilities. Many budgeted face to face meetings were conducted using our virtual meeting ability. Additionally, ReliabilityFirst has emphasized the need to only send required staff to meetings and has placed a high focus on efficient travel.



**Operating Expenses:**

Actual ended the year \$237K (8.67%) over budget.

- **Contract & Consultants** (\$590K (258.68%) over budget for the year.  
Contractor use was necessary until permanent staff was hired in preparing, supporting and documenting our compliance audits. Due to the lag in hiring employees for compliance activities, along with the unanticipated resources needed for Compliance Violation Investigations (CVI), our expense exceeded our budget by \$590K. CVI's are difficult to forecast as they are greatly influenced by bulk electric system events.
- **Professional Services** (\$569K (40.09%) under budget for the year.  
The majority of this line item is due to Legal Services that are budgeted to support compliance violation hearings and settlements. There were no major challenges to the enforcement process in 2009. This particular line item will always be difficult to forecast and manage due to the uncertainty of these challenges.

**Fixed Assets:**

Actual ended the year \$4K (2.72%) over budget.

**Computer Hardware & Software** (\$215K (154.98%) over budget for the year.  
ReliabilityFirst entered into a contract for the development and delivery of a Document/Docket Management & System Interface (DMSI) application in 2008. The application is used to increase the efficiency and effectiveness of the registered entity-region compliance interface, document tracking, electronic storage and court docket tracking for compliance purposes, and to improve the efficiency of all other delegated functions. The DMSI Project started in 2008 and was completed in 2009. It was implemented in three phases. The first phase is the base system to support the oversight of compliance activities of the registered entities. The second phase is the definition and pilot of Document /Docket Management System to support compliance informational needs. The third phase was implemented June, 2009 (defined as essential in the second phase.) Two thirds of the project was completed in 2008 and the remaining was behind schedule and not completed until 2009. Although the project was delivered on budget, the delay caused charges to be incurred in 2009 as opposed to 2008 when they were expected.

For more information contact me at [jack.istvan@rfirst.org](mailto:jack.istvan@rfirst.org) or 330.456.2488.

Sincerely,

*Jack A Istvan*

Jack A. Istvan  
CFO/Treasurer

Attachment



ReliabilityFirst Corporation  
 Statement of Activities  
 (unaudited)  
 From 01/01/2009 Through 12/31/2009

(In Whole Numbers)

2009 YTD Actual	2009 YTD Budget	YTD Variance Over/(Under)	% Variance	
<b>Funding</b>				
8,833,834	8,833,834	0	0.00%	Assessments
1,000	0	1,000		Membership Dues
55,551	80,000	(24,449)	-30.56%	Investment Income
<b>8,890,385</b>	<b>8,913,834</b>	<b>(23,449)</b>	<b>-0.26%</b>	<b>Total Funding</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
5,383,455	5,655,931	(272,476)	-4.82%	Salaries
311,889	333,577	(21,688)	-6.50%	Payroll Taxes
636,871	680,668	(43,797)	-6.43%	Employee Benefits
789,747	956,610	(166,863)	-17.44%	Savings & Retirement Costs
<b>7,121,962</b>	<b>7,626,786</b>	<b>(504,824)</b>	<b>-6.62%</b>	<b>Total Personnel Expenses</b>
<b>Meeting Expenses</b>				
168,796	289,600	(120,804)	-41.71%	Meetings
467,891	628,500	(160,609)	-25.55%	Travel
5,601	5,000	601	12.02%	Conference Calls
<b>642,288</b>	<b>923,100</b>	<b>(280,812)</b>	<b>-30.42%</b>	<b>Total Meeting Expenses</b>
<b>Operating Expenses</b>				
817,785	228,000	589,785	258.68%	Contracts & Consultants
306,865	311,000	(4,135)	-1.33%	Rent & Utilities
751,003	757,015	(6,012)	-0.79%	Office Costs
850,266	1,419,300	(569,034)	-40.09%	Professional Services
21,977	20,000	1,977	9.89%	Miscellaneous
224,465	0	224,465		Depreciation
<b>2,972,361</b>	<b>2,735,315</b>	<b>237,046</b>	<b>8.67%</b>	<b>Total Operating Expenses</b>
<b>10,736,611</b>	<b>11,285,201</b>	<b>(548,590)</b>	<b>-4.86%</b>	<b>Total Expenses</b>
<b>Fixed Assets</b>				
(224,465)	0	(224,465)		Depreciation
354,416	139,000	215,416	154.98%	Computer Hardware & Software
4,025	10,000	(5,975)	-59.75%	Furniture & Fixtures
19,074	0	19,074		Leasehold Improvements
<b>153,050</b>	<b>149,000</b>	<b>4,050</b>	<b>2.72%</b>	<b>Total Fixed Assets</b>
<b>10,889,661</b>	<b>11,434,201</b>	<b>(544,540)</b>	<b>-4.76%</b>	<b>Total of Expenses and Fixed Assets</b>
<b>(1,999,276)</b>	<b>(2,520,367)</b>	<b>521,091</b>	<b>-20.68%</b>	<b>Total Change in Assets</b>
<b>Head Count</b>				
45	44	1		
<b>FTE</b>				
41	44	(3)		



## Budget to Actual Comparison at December 31, 2009

### Income

- **Workshops (Actual - \$153,365 under budget)**
  - Workshop attendance was higher; however registration fees were lower than budgeted for the System Operator Training Conferences, for a total under budget of approximately \$11,000.
  - Attendance and registration fees were less than budgeted for the Joint Meetings, creating an under budget amount of approximately \$60,000.
  - Attendance and registration fees were less than budgeted for the Compliance Seminars, causing an under budget amount of approximately \$57,000.
  - Attendance and registration fees were less than budgeted for the Train-the-Trainer Workshops, causing an under budget amount of \$10,000.
  - Finally, the two audit workshops were not held, causing an under budget of \$15,000.
- **Interest (Actual - \$28,879 under budget)**
  - Due to reduced market rates, the actual interest earned is lower than budget.

### Expense

- **Personnel Expenses (Actual - \$178,947 over budget)**
  - During 2009, SERC hired a technical analyst position to address increased tracking of alerts, recommendations, and training records, and other reliability services data management needs. This position was not budgeted, but deemed necessary.
  - During 2009, a half time auditor position was replaced by a full time auditor position.
  - The 2009 budgeted incentive pay was based on achieving 70% of SERC's goals, where SERC achieved 87.4% of the goals increasing the actual incentive payout.
- **Meeting Expenses (Actual - \$370,726 under budget)**
  - Meetings Expense (\$183,208 under budget) – There has been a greater emphasis on the use of technology by hosting meetings using Webex, which have lowered the meeting costs.
  - Travel Expense (\$205,927 under budget) – SERC has emphasized the use of technology by hosting meetings using Webex. By doing this, travel costs have decreased. Additionally, SERC has emphasized the need to only send required staff to meetings and placed a high focus on efficient travel, thereby reducing costs.
  - Conference calls (\$18,409 over budget) - There has been a greater emphasis on the use of technology by hosting meetings using Webex, which have increased the conference call costs.
- **Contracts/Consultants (\$121,547 under budget)**
  - Participation in the OATI schedule checkout tool was lower than planned in 2009. SERC budgeted for 24 balancing authorities for the entire year. During 2009, 21 balancing authorities had joined. The total cost reduction was \$19,000.

- **Contracts/Consultants (continued)**

- The costs for portal development were lower than planned in 2009 by approximately \$10,000 due to only minor changes were needed to be made to the reliability assessment forms.
- The costs for various projects under the Consortium User Group were budgeted based on splitting the costs between four regions. The actual costs have been split by six regions, causing total consortium costs to be under budget by approximately \$127,400.
- During 2009, SERC did not incur significant contract costs related to the Eastern Interconnection Reliability Assessment Group's (ERAG) Multiregional Modeling Working Group (MMWG) power flow base case series and margin analysis projects, causing SERC to be under budget by approximately \$106,800.
- SERC did not incur significant costs for contractor support in compliance, causing SERC to be under budget by approximately \$15,500.
- SERC is over budget by approximately \$9,000 due to additional IT consulting time incurred for services relating to the consortium and the NERC audit.
- SERC is over budget by approximately \$4,600 for the industry support relating to the SERC hotline.
- The actual costs are higher than budgeted by \$56,000 for the hosting and maintenance costs for SERC's servers.
- SERC used a consultant to perform a climate survey for a cost of \$4,000. This was not budgeted for, but recommended by the Board.
- SERC is over budget by approximately \$28,800 for the restoration exercise support project.
- SERC used a consultant to redesign the website for a cost of \$5,000. This was not budgeted for, but deemed necessary.
- SERC used a consultant for training on the new document management system that was purchased, as noted below under Computer and Software CapEx, for an unbudgeted cost of \$40,100.
- SERC is over budget by \$6,000 for the programming of the morning report.
- SERC used a consultant to reorganize and reformat SERC procedures starting in 2009 for a cost of \$2,000. This was not budgeted, but deemed necessary.
- SERC is over budget a total of \$2,000 for a system restoration training drill.

- **Office Costs (\$20,692 under budget)**

- During 2009, SERC did not purchase as much equipment as budgeted.

- **Professional Services (\$228,712 under budget)**

- Upon request by the board, SERC's outside auditors performed an unbudgeted agreed upon procedure to review the yearend metrics for \$7,300.
- SERC switched payroll and expense reporting services effective January 2009, increasing the monthly fee, causing an overrun of approximately \$15,800.



- **Professional Services (continued)**
  - Budgeted for legal services related to the following which did not occur during 2009, causing an under run of approximately \$252,000:
    - Standards Development procedure or any regional standards that required legal review as they were submitted for FERC approval.
    - Contested penalty assessments.
  
- **Computer and Software CapEx (\$91,099 over budget)**
  - SERC purchased a document management system, which required installation causing an overrun of approximately \$37,000.
  - SERC purchased an indexing server, a SQL server and a virtual server in order to operate the document management system causing an overrun of approximately \$26,100.
  - In order to be in accordance with SERC's document retention policy regarding email files, SERC purchased equipment totaling approximately \$6,300.
  - During 2009, SERC expanded the office space which resulted in an unbudgeted build-out expense of \$32,500.



**SERC Reliability Corporation**  
**Statement of Activities**  
**From 01/01/09 to 12/31/09**  
**(Unaudited)**

(In Whole Dollars)

	2009 YTD Actual	2009 YTD Budget	2009 YTD Variance Over(Under)
<b>Funding</b>			
<b>ERO Funding</b>			
ERO Assessments	\$ 9,652,546	\$ 9,652,546	\$ -
Penalty Sanctions	-	-	-
<b>Total ERO Funding</b>	<b>\$ 9,652,546</b>	<b>\$ 9,652,546</b>	<b>\$ -</b>
Workshops	249,635	403,000	(153,365)
Interest	11,121	40,000	(28,879)
Miscellaneous	759	-	759
<b>Total Funding</b>	<b>\$ 9,914,061</b>	<b>\$ 10,095,546</b>	<b>\$ (181,485)</b>
<b>Expenses</b>			
<b>Personnel Expenses</b>			
Salaries	\$ 5,605,439	\$ 5,392,546	212,893
Payroll Taxes	352,238	404,440	(52,202)
Benefits	568,519	551,340	17,179
Retirement Costs	506,074	504,997	1,077
<b>Total Personnel Expenses</b>	<b>\$ 7,032,270</b>	<b>\$ 6,853,323</b>	<b>\$ 178,947</b>
<b>Meeting Expenses</b>			
Meetings	\$ 451,425	\$ 634,633	(183,208)
Travel	395,241	601,168	(205,927)
Conference Calls	48,409	30,000	18,409
<b>Total Meeting Expenses</b>	<b>\$ 895,075</b>	<b>\$ 1,265,801</b>	<b>\$ (370,726)</b>
<b>Operating Expenses</b>			
Consultants & Contracts	\$ 803,153	\$ 924,700	\$ (121,547)
Office Rent	183,961	183,277	684
Office Costs	245,300	265,992	(20,692)
Professional Services	93,288	322,000	(228,712)
Miscellaneous	4,386	-	4,386
Depreciation	11,187	-	11,187
<b>Total Operating Expenses</b>	<b>\$ 1,341,275</b>	<b>\$ 1,695,969</b>	<b>\$ (354,694)</b>
<b>Total Direct Expenses</b>	<b>\$ 9,268,620</b>	<b>\$ 9,815,093</b>	<b>\$ (546,473)</b>
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ 210,453</b>	<b>\$ (210,453)</b>
<b>Total Expenses</b>	<b>\$ 9,268,620</b>	<b>\$ 10,025,546</b>	<b>\$ (756,926)</b>
<b>Change in Assets</b>	<b>\$ 645,441</b>	<b>\$ 70,000</b>	<b>\$ 575,441</b>
<b>Fixed Assets</b>			
Depreciation	\$ (11,187)	\$ -	\$ (11,187)
Computer & Software CapEx	172,286	-	172,286
Furniture & Fixtures CapEx	-	70,000	(70,000)
Equipment CapEx	-	-	-
Leasehold Improvements	-	-	-
<b>Change in Fixed Assets</b>	<b>\$ (161,099)</b>	<b>\$ (70,000)</b>	<b>\$ (91,099)</b>
<b>TOTAL CHANGE IN ASSETS</b>	<b>\$ 484,342</b>	<b>\$ -</b>	<b>\$ 484,342</b>
<b>FTEs</b>	44.5	43.0	1.5



**SOUTHWEST POWER POOL  
ACTUAL TO BUDGET COMPARISON  
AS OF DECEMBER 31, 2009**

**EXPENSES**

- **Personnel Expenses** (Actual - \$29K over budget) – Personnel expenses exceeded budget primarily due to additional staff hired in 2009 to support compliance and enforcement activities.
- **Travel and Meeting Expenses** (Actual - \$68K under budget) –Travel expense exceeded budget primarily due to additional compliance staff and their travel requirements. Meeting expenses trailed budget primarily due to training activities being held onsite instead of using third party locations.
- **Other Operating Expenses** (Actual - \$1K over budget) – Contracts and Consultants exceeded budget due to additional consulting resources utilized for compliance audits. These expenses were offset by a reduction in Professional Services as no hearings had taken place in 2009.
- **Indirect Costs** (Actual - \$1,474K under YTD budget) - Indirect costs include overhead resources such as corporate support services including Information Technology, Human Resources and Accounting. These costs are charged to the regional entity in relationship to the direct and shared staff manhours engaged to perform specific statutory functions. These costs are in place of overhead items such as office rent, depreciation, communications, technology support, etc. YTD indirect costs trail budgeted costs due to a decrease in the actual hourly rate as compared to the budgeted rate.



**SOUTHWEST POWER POOL**  
 STATEMENT OF ACTIVITIES  
 2009 DECEMBER YTD DRAFT (UNAUDITED)

<i>(In Whole Dollars)</i>	<b>2009</b>	<b>2009</b>	
	<b>ACTUAL</b>	<b>BUDGET</b>	<b>VARIANCE</b>
<b>Funding</b>			
ERO Funding	\$7,123,827	\$7,123,827	\$0
Testing Fees	0	0	0
Workshops	0	0	0
Interest	1,673	0	1,673
Miscellaneous	8,485	0	8,485
<b>Total Funding</b>	<b>7,133,985</b>	<b>7,123,827</b>	<b>10,158</b>
<b>Expenses</b>			
<b>Personnel Expenses</b>			
Salaries	1,820,191	1,775,017	45,174
Payroll Taxes	119,812	135,789	(15,976)
Benefits	172,449	177,328	(4,879)
Retirement Costs	76,057	71,001	5,056
<b>Total Personnel Expenses</b>	<b>2,188,509</b>	<b>2,159,134</b>	<b>29,375</b>
<b>Meeting Expenses</b>			
Meetings	98,487	178,800	(80,313)
Travel	218,172	206,000	12,172
Conference Calls	0	0	0
<b>Total Meeting Expenses</b>	<b>316,660</b>	<b>384,800</b>	<b>(68,140)</b>
<b>Operating Expenses</b>			
Contracts & Consultants	439,387	395,660	43,727
Office Rent	0	0	0
Office Costs	0	0	0
Administrative Costs	13,938	0	13,938
Professional Services	91,107	150,000	(58,893)
RE Trustee Fees	137,388	135,000	2,388
Computer Purchase & Maint.	0	0	0
Depreciation	0	0	0
Miscellaneous/ Cotingency	0	0	0
<b>Total Operating Expenses</b>	<b>681,820</b>	<b>680,660</b>	<b>1,160</b>
<b>Total Direct Costs</b>	<b>3,186,989</b>	<b>3,224,594</b>	<b>(37,606)</b>
Total Indirect Costs	1,782,208	3,256,442	(1,474,234)
<b>Total Costs</b>	<b>4,969,197</b>	<b>6,481,036</b>	<b>(1,511,840)</b>
<b>Change in Assets</b>	<b>\$2,164,788</b>	<b>\$642,791</b>	<b>\$1,521,997</b>
FTE	14.8	17.2	



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## MEMORANDUM

To: Michael Walker and Susan Turpen, NERC  
From: Todd Brewer, Senior Financial Analyst, Texas RE  
CC: Larry Grimm, CEO & CCO, Texas RE  
Date: February 4, 2010  
Re: 4<sup>th</sup> Quarter Statement of Activities Reporting-Adjusted 2/4/10

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Dear Michael and Susan,

Texas Regional Entity (Texas RE) has completed the analysis requirements to file the 4th Quarter, 2009 variance report for NERC's use. Texas RE is including variance explanations for those items that are greater than \$5,000. Texas RE believes that those variances that are less than the stated threshold would not be material to users of the financial information; however, Texas RE can provide additional information if needed. The variances for the year are as follows:

### INCOME

- The assessments receipts, year-to-date, are as budgeted. However, revenues and expenses from the Operations Training Seminar (OTS) exceeded budget by \$111K for the year. The reason for the variance is due to a venue change that was not anticipated in the 2009 budget. The increased revenue was sufficient to offset the higher costs associated with the seminar. Additionally, Texas RE is earning a small amount of unplanned interest income of \$3K for the year.

### EXPENSES

- **Personnel Expenses** (Actual – \$225K under budget year-to-date)
  - Salary expenses are approximately \$99K under budget due to FTE vacancies year-to-date. The budget included 32 FTEs that were fully funded throughout the year.
  - Payroll taxes are a function of the salary expense and are \$27K below budget. As the FTEs have been lower than planned, so too is the expense.
  - Employee benefits were planned at full staff and assumed the highest possible benefit plan selection by employees. Vacancies in staffing have caused the expense in this category to be lower than planned by \$54K.
  - Savings and Retirement expenses are under budget by \$45K due to the above mentioned vacancies.
- **Meetings** (Actual – \$43K over budget year-to-date)
  - The Operations Training Seminar (OTS) was conducted at a different venue; this resulted in the costs associated with the OTS to exceed the original plan. However, Texas RE was able to adjust the registration fees charged to attendees to mitigate this variance before the seminar began.

- **Contracts & Consultants** (Actual – \$35K under budget year-to-date)
  - The IT services expenses and support services expenses (HR, Treasury, Finance, and Board of Directors & Procurement) related to the memorandum of understanding between ERCOT ISO and Texas RE are less than budget primarily due to employee vacancies.
- **Rent & Improvements** (Actual – \$211K under budget year-to-date)
  - The rent expense for 2009 is under budget due to a delay in Texas RE's move. Texas RE planned for a January move-in date; however that was delayed to February 28th in order to complete leasehold improvements required for Texas RE to occupy the space. In addition to the delay, Texas RE was able to procure office space at a lower rentable square footage rate than was originally budgeted.
- **Office Costs** (Actual – \$11K over budget year-to-date)
  - Overspending in this category is primarily related to the increased expense for materials at the OTS and due to the FERC audit of Texas RE.
- **Professional Services** (Actual – \$26K over budget year-to-date)
  - Texas RE received notification that it would be required to reimburse NERC for \$119K in audit related expense associated with the audit of ERCOT ISO. This expense was not budgeted for 2009; however, this overage was offset by under spending in other areas.
- **Depreciation** (Actual – \$31K under budget year-to-date)
  - Texas RE's capital projects were under development for most of 2009. Texas RE does not depreciate a project until it is substantially complete. As a result of this, the depreciation expense recorded was less than originally budgeted.
- **Non-Operating Expenses** (Actual – \$855K under budget year-to-date)
  - Texas RE established a cash reserve of \$855K in non-operating expenses. A non-operating expense will not occur in 2009.

#### **FIXED ASSETS**

- Texas RE did incur expenses related to its portal, website and document management systems; year-to-date net spending was \$283K. This was higher than budget by \$37K.

As you are reviewing the enclosed report, please do not hesitate to contact me at 512.225.7031 or Larry Grimm at 512.225.7025 with questions or concerns.

Best Regards,



Todd Brewer,  
Manager, Finance & Accounting  
Texas Regional Entity

**TEXAS REGIONAL ENTITY**  
Statement of Activities  
For Year-to-Date December 31, 2009  
(Unaudited)

(In Whole Dollars)

	2009 YTD Actual	2009 YTD Budget	2009 YTD Variance
<b>Funding</b>			
<b>ERO Funding</b>			
ERO Assessments	\$ 3,430,700	\$ 3,430,700	\$ -
Penalty Sanctions	-	-	-
<b>Total ERO Funding</b>	<b>\$ 3,430,700</b>	<b>\$ 3,430,700</b>	<b>\$ -</b>
Membership Dues	\$ -	\$ -	\$ -
Testing Fees	-	-	-
Services & Software	-	-	-
Workshops	180,607	70,000	110,607
Interest	3,156	-	3,156
Miscellaneous	-	-	-
<b>Total Funding</b>	<b>\$ 3,614,463</b>	<b>\$ 3,500,700</b>	<b>\$ 113,763</b>
<b>Expenses</b>			
<b>Personnel Expenses</b>			
Salaries	\$ 2,398,301	\$ 2,496,968	\$ (98,667)
Payroll Taxes	172,910	199,757	(26,847)
Benefits	205,623	259,628	(54,005)
Retirement Costs	311,074	356,523	(45,449)
<b>Total Personnel Expenses</b>	<b>\$ 3,087,908</b>	<b>\$ 3,312,877</b>	<b>\$ (224,969)</b>
<b>Meeting Expenses</b>			
Meetings	\$ 141,114	\$ 105,000	\$ 36,114
Travel	114,285	107,470	6,815
Conference Calls	-	-	-
<b>Total Meeting Expenses</b>	<b>\$ 255,399</b>	<b>\$ 212,470</b>	<b>\$ 42,929</b>
<b>Operating Expenses</b>			
Consultants & Contracts	\$ 455,890	\$ 490,986	\$ (35,096)
Office Rent	306,269	517,550	(211,281)
Office Costs	29,710	18,280	11,430
Professional Services	452,102	426,000	26,102
Miscellaneous	10,770	11,160	(390)
Depreciation	45,466	76,540	(31,074)
<b>Total Operating Expenses</b>	<b>\$ 1,300,207</b>	<b>\$ 1,540,516</b>	<b>\$ (240,309)</b>
<b>Total Direct Expenses</b>	<b>\$ 4,643,514</b>	<b>\$ 5,065,863</b>	<b>\$ (422,349)</b>
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ 855,000</b>	<b>\$ (855,000)</b>
<b>Total Expenses</b>	<b>\$ 4,643,514</b>	<b>\$ 5,920,863</b>	<b>\$ (1,277,349)</b>
<b>Change in Assets</b>	<b>\$ (1,029,051)</b>	<b>\$ (2,420,163)</b>	<b>\$ 1,391,112</b>
<b>Fixed Assets</b>			
Depreciation	\$ (45,466)	\$ (76,540)	\$ 31,074
Computer & Software CapEx	328,486	322,702	5,784
Furniture & Fixtures CapEx	-	-	-
Equipment CapEx	-	-	-
Leasehold Improvements	-	-	-
<b>Change in Fixed Assets</b>	<b>\$ (283,020)</b>	<b>\$ (246,162)</b>	<b>\$ (36,858)</b>
<b>TOTAL CHANGE IN ASSETS</b>	<b>\$ (1,312,071)</b>	<b>\$ (2,666,325)</b>	<b>\$ 1,354,254</b>
<b>FTEs</b>	30.0	32.0	(2.0)



**Jillian S. Lessner**  
Controller

801.883.6866  
jlessner@wecc.biz

**Statement of Activities (Unaudited)**  
**December 31, 2009**  
**Variance Explanations**

*Year-to-date variances greater than \$10,000 and 10 percent are explained below, in addition to any other variances that are noteworthy.*

**FUNDING**

- **SERVICES & SOFTWARE** (\$85K under budget)
  - Service revenue was budgeted that will not be realized.
- **INTEREST** (\$195K under budget)
  - Rates of return are less in 2009 than anticipated due to current economic conditions.
- **MISCELLANEOUS** (\$17K over budget)
  - Unrealized gains on investments were not budgeted in 2009.

**EXPENSES**

- **SALARIES** (\$834K under budget)
  - Lag in hiring (Standards, Training, Reliability Assessment, and Administrative Services), delays in backfilling several positions, and delays in incentive payments. WECC budgeted for all new hire salaries and incentive payments effective January first.
- **PAYROLL TAXES** (\$269K under budget)
  - Hiring lags and delays in backfilling open positions; Payroll Taxes fluctuate with Salaries.
- **BENEFITS** (\$1,426K under budget)
  - Training was underutilized and is under budget by \$162K.
  - HRA reimbursements are \$147K less than the evenly allocated budget. The bulk of reimbursements are submitted in the last quarter of the year and the first quarter of the following year.
  - Insurance costs are \$766K lower than expected due to hiring lags and the levels of coverage selected (family, single, etc) compared to what was budgeted.

- Recruiting costs of \$350K were budgeted in Benefits, but actuals are considered part of Salaries and were \$186K.
- **RETIREMENT COSTS** (\$202K under budget)
  - The level of employee participation in the retirement plan was under-estimated.
  - Retirement Costs fluctuate with Salaries.
- **MEETINGS** (\$225K under budget)
  - Some in-person meetings were canceled during the year and web-conferences were employed. Also, attendance at some meetings was lower than anticipated.
- **TRAVEL** (\$150K under budget)
  - Travel is under budget mainly due to lower than expected travel requirements in Compliance.
- **CONFERENCE CALLS** (\$45K under budget)
  - WECC is attempting to control conference call costs by using a free teleconferencing service for many calls. Also, fewer individuals participated in calls than expected.
- **CONSULTANTS & CONTRACTS** (\$1,328K under budget)
  - Software costs of \$1,858K were budgeted in Contracts in 2009 and the actuals are appropriately recorded in Fixed Assets (\$910K) and Office Costs (\$102K).
  - Consulting and contract labor in Compliance are over budget by \$378K due to workload requirements.
- **OFFICE RENT** (\$49K over budget)
  - Office Maintenance actuals were appropriately classified in this category. The budget was included in Office Costs.
- **OFFICE COSTS** (\$928K under budget)
  - Internet/computer/data communications costs are \$1,287K less than anticipated, mostly due to improved procurement procedures in Situation Awareness.
  - Computer maintenance, supplies and license costs are \$238K less than budgeted due to lower levels of required maintenance than anticipated and also due to lower than expected renewal costs.
  - Expenditures of \$336K on equipment and software that are under the capitalization threshold are recorded here but budgeted in Contracts.
- **DEPRECIATION**
  - Depreciation was not budgeted in 2009 but will be recorded prior to the commencement of WECC's 2009 financial statement audit.

- **OTHER NON-OPERATING EXPENSES** (\$1,243K under budget)
  - Interest expense is under budget due to a lower than anticipated floating rate on the line of credit.
  - A one million dollar addition to working capital reserves was budgeted as an Other Non-operating Expense. However, the addition to reserves flows to the bottom line for 2009 actuals reporting. An addition to reserves should not be an expense.

## **FIXED ASSETS**

- **COMPUTER & SOFTWARE CAPEX** (\$1,019K over budget)
  - Most of WECC's Computer & Software CapEx (\$1,858K) was budgeted in Contracts for 2009; WECC prepared its 2009 budget on a cash basis. NERC and the Regions are moving towards GAAP budgeting and reporting and actuals are being appropriately recorded in Fixed Assets.
  - WECC's Salt Lake City office is relocating in 2010 and some Computer equipment was purchased for that space in 2009.
- **FURNITURE & FIXTURES CAPEX** (\$93K over budget)
  - WECC Corporate and Compliance staff relocated to a new office space in Vancouver in 2009 and some new furniture was purchased which was not in the budget.
  - WECC's Salt Lake City office is relocating in 2010 and some furniture and fixtures were purchased for that space in 2009.
- **LEASEHOLD IMPROVEMENTS** (\$250K over budget)
  - WECC Corporate and Compliance staff relocated to a new office space in Vancouver in 2009 and some space modifications were required which were not in the budget.
  - The Loveland Reliability Coordination Center expanded its office space in 2009 and incurred unbudgeted Leasehold Improvements.
  - WECC's Salt Lake City office is relocating in 2010. Renovations at the new space began in 2009 and some leasehold improvement costs were incurred in 2009.



Western Electricity Coordinating Council

(In Whole Dollars)

Western Electricity Coordinating Council

Statutory Statement of Activities

From 1/1/2009 to 12/31/2009

(Unaudited)

	2009 YTD Actual	2009 YTD Budget	2009 YTD Variance Over(Under)
<b>Funding</b>			
<b>ERO Funding</b>			
ERO Assessments	\$ 37,088,486	\$ 37,088,502	\$ (16)
Penalty Sanctions	\$ -	\$ -	\$ -
<b>Total ERO Funding</b>	<b>\$ 37,088,486</b>	<b>\$ 37,088,502</b>	<b>\$ (16)</b>
Membership Dues	-	-	-
Testing Fees	-	-	-
Services & Software	-	85,082	(85,082)
Workshops	838,275	863,290	(25,015)
Interest	450,665	645,593	(194,928)
Miscellaneous	26,185	9,300	16,885
<b>Total Funding</b>	<b>\$ 38,403,611</b>	<b>\$ 38,691,767</b>	<b>\$ (288,156)</b>
<b>Expenses</b>			
<b>Personnel Expenses</b>			
Salaries	\$ 14,790,866	\$ 15,624,378	\$ (833,512)
Payroll Taxes	1,001,678	1,270,888	(269,210)
Benefits	1,759,471	3,185,702	(1,426,231)
Retirement Costs	944,354	1,146,404	(202,050)
<b>Total Personnel Expenses</b>	<b>\$ 18,496,369</b>	<b>\$ 21,227,372</b>	<b>\$ (2,731,003)</b>
<b>Meeting Expenses</b>			
Meetings	\$ 962,233	\$ 1,187,650	\$ (225,417)
Travel	1,376,295	1,526,096	(149,801)
Conference Calls	106,244	151,076	(44,832)
<b>Total Meeting Expenses</b>	<b>\$ 2,444,772</b>	<b>\$ 2,864,822</b>	<b>\$ (420,050)</b>
<b>Operating Expenses</b>			
Consultants & Contracts	\$ 2,595,975	\$ 3,923,868	\$ (1,327,893)
Office Rent	1,027,051	977,832	49,219
Office Costs	2,477,474	3,405,122	(927,648)
Professional Services	1,501,885	1,520,608	(18,723)
Miscellaneous	-	-	-
Depreciation	-	-	-
<b>Total Operating Expenses</b>	<b>\$ 7,602,385</b>	<b>\$ 9,827,430</b>	<b>\$ (2,225,045)</b>
<b>Total Direct Expenses</b>	<b>\$ 28,543,526</b>	<b>\$ 33,919,624</b>	<b>\$ (5,376,098)</b>
<b>Other Non-Operating Expenses</b>	<b>\$ 3,012,571</b>	<b>\$ 4,256,063</b>	<b>\$ (1,243,492)</b>
<b>Total Expenses</b>	<b>\$ 31,556,097</b>	<b>\$ 38,175,687</b>	<b>\$ (6,619,590)</b>
<b>Change in Assets</b>	<b>\$ 6,847,514</b>	<b>\$ 516,080</b>	<b>\$ 6,331,434</b>
<b>Fixed Assets</b>			
Depreciation	-	-	-
Computer & Software CapEx	1,535,575	516,080	1,019,495
Furniture & Fixtures CapEx	93,206	-	93,206
Equipment CapEx	-	-	-
Leasehold Improvements	249,978	-	249,978
<b>Change in Fixed Assets</b>	<b>\$ (1,878,759)</b>	<b>\$ (516,080)</b>	<b>\$ (1,362,679)</b>
<b>TOTAL CHANGE IN ASSETS</b>	<b>\$ 4,968,755</b>	<b>\$ -</b>	<b>\$ 4,968,755</b>

FTEs

146

140





**Agenda Item 14b  
Board of Trustees Meeting  
February 16, 2010**

**2011 NERC Business Plan and Budget Preparation Schedule**

<b>DATES</b>	<b>NERC</b>	<b>Regional Entity</b>
January-February	NERC Program Areas provide input to NERC finance on business plan and budget requirements. Main focus is on 2011 but should provide longer term projections where feasible. NERC Program Areas should be working together, exchanging information and developing proposed 2011 resource requirements through a coordinated and integrated approach. Regional Entities will be looking to NERC for guidance on developments and other factors that will drive resource needs.	Discussions with NERC Program Areas regarding projected resource requirements  NERC/REBG template working group works on developing budget templates and procedures
January 29	Draft 2011 BP&B Common Assumptions posted (internally) and circulated among the regions & NERC	
Commencing on or about February 3	NERC finance provides NERC Program Area management detailed schedule of 2010 budget breakdown for personnel, meeting and operating expenses, including contractors and consultants, as well as preliminary allocation of 2010 efficiency savings target	
Week commencing February 8	Finalize efficiency savings and 2010 resource allocation	
February 5	Joint REMG and REBG Teleconference Meeting; BP&B assumptions to be discussed	Joint REMG and REBG Teleconference Meeting; BP&B assumptions to be discussed
February 11	FAC Conference Call to discuss quarterly business; includes preliminary 2009 results, update on 2011 BP&B process and 2010 BP&B; review and recommendation on TRE 2010 BP&B Amendment	
February 14	REMG – Phoenix, Arizona; REMG and NERC Management approve final BP&B Assumptions	REMG – Phoenix, Arizona; RMs approve final BP&B Assumptions
February 15-16	NERC Board of Trustees meeting; includes review and action on TRE 2010 BP&B Amendment update on 2011 BP&B Schedule	
February 19	Final 2011 Common Assumptions circulated to REMG and REBG	
	NERC finance circulates internal shell draft document for 2011 BP&B to NERC Program Areas	

<b>DATES</b>	<b>NERC</b>	<b>Regional Entity</b>
February 20-27	NERC finance and NERC Program Management work to complete initial rough draft of BP&B for circulation to REs	
March 1 (date may be moved up)	NERC BP&B rough draft circulated to REs for input	REBG facilitates review of NERC draft BP&B by Regional Entity Program Areas
	NERC REBG Template working group completes templates; Budget template, metrics template and budget procedure document sent to REs.  NERC BP&B rough draft to be provided for circulation to the REs for input	Template working group completes templates; Budget template, metrics template and budget procedure document sent to REs; NERC BP&B rough draft to be provided for circulation to the REs for input
March 2- March 31	NERC and Regional Entity Program Areas and finance teams work together to discuss and refine NERC draft- series of conference calls to be scheduled with NERC and REBG reps and each NERC and Regional Entity Program Area.	NERC and Regional Entity Program Areas work together to discuss and refine ERO resource needs
April 12	Draft #1 of 2011 NERC Business Plan and Budget posted and sent to FAC.	
April 14- 1- 3pm EDT	TENTATIVE FAC conference call to discuss Draft #1 business plan and budget and, subject to timing of receipt by NERC, review of WECC BP&B amendment associated with DOE stimulus grants	
May 3		Regional Entity 2009 True-up filings due to NERC
May 5	Stakeholder Comments due on Draft #1 of NERC Business Plan and Budget	
May 10		Preliminary internal draft of Regional Entity business plans and budgets submitted to NERC for circulation among NERC program managers for review and feedback. Should include metrics consistent with output of RDA renegotiations
May 10	FAC Meeting- update on BP&B as part of agenda	
May 10-17	NERC Program Area management reviews and provides feedback on draft Regional Entity BP&Bs	NERC and Regional Entity Program management review and discuss Regional Entity draft BP&Bs

DATES	NERC	Regional Entity
May 11-12	NERC BOT and MRC Review of Draft #1 of NERC BP&B, including summary prepared by NERC staff of comments received – Baltimore, MD- FAC Chair to brief BOT	
May 18	Teleconference between NERC finance and REBG to discuss areas of potential revision to overall ERO BP&B (Draft #1 of NERC BP&B and preliminary drafts of Regional Entity BP&Bs)	Teleconference between NERC finance and REBG to discuss areas of potential revision to overall ERO BP&B (Draft #1 of NERC BP&B and preliminary drafts of Regional Entity BP&Bs)
May 28	Draft #2 of 2011 NERC Business Plan and Budget posted; NERC files ERO 2009 BP&B True-Up with FERC	Draft 1 of Regional Entity Business Plans and Budgets posted on NERC website
June 28	Stakeholder Comments due on NERC Draft #2 of NERC BP&B	Comments due on Draft 1 of Regional Entity Business Plans and Budgets
July 8	NERC management continues review of final revisions to NERC BP&B, including any changes to respond to stakeholder comments	Final Regional Entity budget submittal due – approved by Regional Entity board. Regional Entities also submit final list of LSEs
July 12	FAC conference call agenda posted.(no meeting or call) NERC and Regional Entity final BP&Bs to included in agenda materials; including summary of stakeholder comments	
July 19	FAC conference call review and provide direction on any changes necessary to finalize NERC and Regional Entity BP&Bs and RDA financial metrics	
July 21	Final NERC and Regional Entity BP&B and assessments mailed to FAC, Board of Trustees and Member Representatives Committee.	
August 4	FAC Meeting to approve NERC and Regional Entity final 2011 BP&Bs, and well as financial RDA metrics	
August 5	NERC and Regional Entity BP&Bs and assessments, as well as RDA metrics (both financial and non-financial), presented to Board of Trustees for approval.	
August 24	Submit package to FERC and Canadian provincial authorities for approval. Package to include: (1) the NERC budget approved by the board, (2) NERC’s annual funding requirement (including regional entity costs for delegated functions) and (3) the mechanism for assessing charges to recover that annual funding requirement, together with supporting materials in sufficient detail to support the requested funding requirement. (130 days prior to beginning of budget (calendar) year.	