



**2009 Business Plan and Budget
Version 3.1**

Texas Regional Entity

**Approved by:
Texas Regional Entity Board of Directors**

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Introduction

Total RE Resources (in whole dollars)				
	2009 Budget	U.S.	Canada	Mexico
Statutory FTEs	26.95			
Non-statutory FTEs	5.05			
Total FTEs	32.0			
Statutory Expenses	\$6,167,024	\$6,167,024		
Non-statutory Expenses	\$871,997	\$871,997		
Total Expenses	<u>\$7,039,021</u>	<u>\$7,039,021</u>		
ERO Funding/Assessments	\$3,430,700	\$3,430,700		
Other Funding Sources	\$70,000	\$70,000		
Non-statutory Funding	\$871,997	\$871,997		
Total Funding	<u>\$4,372,697</u>	<u>\$4,372,697</u>		
NEL	319,355,145 mwh	319,355,145 mwh		
NEL %	100.0%	100.0%		

Texas Regional Entity (Texas RE) is an independent division of Electric Reliability Council of Texas, Inc. (ERCOT ISO), a Texas non-profit corporation. The vision of Texas RE is 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.

In May 2007, Texas RE executed a Delegation Agreement with North American Electric Reliability Corporation (NERC), the Electric Reliability Organization (ERO) certified by the Federal Energy Regulatory Commission (the Commission), pursuant to Section 215(c) of the Federal Power Act (FPA). In response to subsequent orders by the Commission, Texas RE and NERC signed an Amended and Restated Delegation Agreement on March 28, 2008.

The Commission authorized NERC to develop standards for the reliable operation and planning of the Bulk-Power System, to enforce compliance with those standards, and to conduct periodic assessments of the reliability and adequacy of the Bulk-Power System in North America. The Commission further authorized NERC to delegate these responsibilities to regional entities through Delegation Agreements approved by the Commission, and the Commission provides oversight of the ERO and regional entity performance in the United States, pursuant to the FPA.

In the May 2007 Delegation Agreement and the March 28, 2008 Amended and Restated Delegation Agreement (collectively "the Delegation Agreement"), NERC delegates to 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 N. 672 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 ERCOT Region-Specific regional reliability standards ("Regional Standards") and variances within the ERCOT Region, in accordance with the NERC Rules of Procedure (ROP). Texas RE's activities under the Delegation Agreement are referred to herein as statutory activities.

All proposed reliability standards and Regional Standards and variances must be submitted by the ERO to the Commission and must be approved by the Commission as just, reasonable, not unduly discriminatory or preferential, and in the public interest to be effective and enforceable. The ERO and regional entities monitor compliance with the reliability standards, and they may direct violators to comply with the standards and impose penalties for violations in accordance with the NERC ROP, subject to review by and appeal to the Commission. While the ERO is responsible for compliance and enforcement under Commission oversight, the Commission is

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authorized by the FPA to also investigate compliance and impose penalties independently of the ERO.

In addition to Texas RE's statutory activities, Texas RE investigates, audits, and reports on compliance with the ERCOT Region reliability-based Protocols and Operating Guides (Protocols) for the Public Utility Commission of Texas (PUCT). Texas RE's Protocol-related activities are referred to herein as Non-statutory activities. Texas RE coordinates with PUCT staff regarding enforcement of potential Protocol violations, but the PUCT prosecutes 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.

Vision

The vision of Texas Regional Entity, an independent division of Electric Reliability Council of Texas, Inc., is 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.

Mission

In order to fulfill its obligations, Texas Regional Entity will act in accordance with its Delegation Agreement, NERC Rules of Procedure and the PUCT approved ERCOT Compliance Process to:

- Monitor, report, and enforce compliance with NERC Reliability Standards by all users, owners, and operators of the bulk-power system in the ERCOT Region.
- Develop regional variances or standards which go beyond, add details to or implement NERC Reliability Standards.
- Monitor and report compliance with ERCOT Protocols by all Market Participants in the ERCOT Region.

Membership and Governance

Because Texas RE is an independent division of ERCOT ISO, members of ERCOT ISO are also members of Texas RE. These members can be from any ERCOT ISO Segment (as listed below), and, except for the Consumer Segment, must have an actual financial interest in the retail or wholesale electric market in the ERCOT Region and be able to do business in one of these markets. ERCOT ISO 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 bulk power system 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 bulk power system being monitored, Texas RE is a functionally separate and independent division of ERCOT ISO. Texas RE is led by a chief executive officer with the title CEO and Chief Compliance Officer (CCO) who manages the general affairs of Texas RE as its chief executive officer, who reports to the Board of Directors or a subcommittee thereof for administrative purposes. The Texas RE employees maintain office space that is separated from ERCOT ISO office space by a secured access point. 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 uses certain administrative services provided by ERCOT

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ISO employees, but Texas RE pays a cost reimbursement based rate for goods or services provided by ERCOT ISO, pursuant to the Service Level Agreement.

Texas RE's board is comprised of the sixteen (16) directors of the ERCOT ISO board, including 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:

- A. Three (3) Consumers:
 - 1. Public Counsel (representing residential consumers and small commercial consumers, as an ex officio voting member)
 - 2. Large Commercial (peak demand >1000 kilowatts)
 - 3. Industrial Consumer
- B. 1 Independent Retail Electric Provider (and one segment alternate)
- C. 1 Generator (and one segment alternate)
- D. 1 Independent Power Marketer (and one segment alternate)
- E. 1 Investor Owned Utility and (and one segment alternate)
- F. 1 Municipal (and one segment alternate)
- G. 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).

Statutory Functional Scope

In accordance with the Delegation Agreement and in compliance with the NERC ROP, Texas RE performs the following Statutory Functions:

- A. Propose Reliability Standards, Regional Variances or modifications thereof to NERC and develop needed Regional Standards through Texas RE's standards development procedure.
- B. Monitor and enforce approved Reliability Standards (including Regional Standards and Regional Variances) within the ERCOT Region through Texas RE's Compliance Monitoring and Enforcement Program (CMEP).
- C. Perform delegation-related services on behalf of NERC, in furtherance of NERC's responsibilities as the ERO under the FPA, including:
 - 1. Organization registration and certification.
 - 2. Assessment and performance analysis of the present and future reliability, adequacy, and security of the bulk-power system.
 - 3. Promote effective training and education of reliability personnel and assist in the certification of operating personnel.
 - 4. Promote situational awareness and the security and protection of critical infrastructure.

Non-Statutory Functional Scope

In addition to its Statutory functions, Texas RE monitors and investigates compliance with the ERCOT Region Protocols needed to safely and reliably operate the electric transmission system and support wholesale and retail markets. The ERCOT Region Protocols contain the market rules for planning and operating reliable interconnected bulk electric system in the ERCOT

Region. To ensure that the reliability of the interconnected bulk electric system is maintained, all ERCOT Region market participants involved in planning, operating, or using this system must understand and comply with these requirements. The PUCT oversees the enforcement process. Further explanation of the Non-Statutory budget is included in the Non-Statutory section of the Budget & Business Plan.

Planning Cycle

Texas RE's financial process for the 2009 budget planning cycle employed a zero-based budgeting methodology. Each request for resources was evaluated and justified to ensure that resource requests were efficient and matched the departmental plan for the coming year. Each department manager was responsible for budgeting department resources for the 2009 planning cycle. The budget requests were evaluated for reasonableness and cost efficiency to ensure that the planning process would be successful. The budget assumptions associated with this planning cycle are as follows:

- 2009 will be the 2nd full year of operations for Texas RE.
- The budget process ensured that all of the functions were appropriately budgeted to:
 - Discharge all of the NERC Delegation Agreement requirements.
 - Continue monitoring & reporting on protocol compliance and non-compliance.
 - Ensure Texas RE continues to improve its processes by utilizing technology to enhance its operations.
 - Guarantee Texas RE has appropriate cash on hand by establishing a 60-day cash on hand reserve. The reserve represents approximately 60 days of operating expenses. This benchmark was chosen due to its common usage in financial markets as an indication of appropriate cash reserves to be held by organizations that receive bond-financing, though Texas RE does not have bond-financing.
- The reserve is to be treated as a non-operating expense item for purposes of budgeting, but will ensure that Texas RE has sufficient cash on hand.
- Labor expense and allocations for Statutory (Federal) functions and Non-Statutory (Protocol) functions were projected based on current time-tracking and expected trends.
- Increased Statutory Compliance labor resulted due to:
 - Additional and longer audits required, due to increased number of FERC-approved Reliability Standards and increased number of Registered Entities.
 - Increased emphasis on situational awareness and cyber-security.
 - Increase in Legal and Regulatory (investigations, contested matters, required communications with NERC, FERC, and PUCT, and regulatory matters).
- Invest in technology improvements and process automation.
- Non-statutory requirements will not increase.
 - Efficiencies experienced on QSE audits, due to statutory audits and statutory event analysis.
 - Projected allocation to the Non-Statutory function is reduced to less than 15% of the total budget.
- Increase in labor costs of 43% for 2009 (Headcount increasing 30%):
- Tight labor market for experienced Electrical Engineers with Electric Power Systems experience is driving salary up.
- Surplus funds from prior years (2007 & 2008) are expected to offset 2009 funding requirements (balance remaining is forecast to be \$1.8M).
- Texas RE Staff will relocate outside of its present location due to space requirements.
- FTE's are calculated based on hours of work spent performing activities as compared to 2,080 labor hours available in a full-time employee work-year.
- Services are received by Texas RE from ERCOT ISO for additional support services not included in Texas RE's direct expenses. These services are identified and priced in the

Memorandum of Understanding (including exhibits) between Texas RE and ERCOT ISO.

Texas RE staff reviews the organization's financials, monthly against plan, and documents the variances and emerging trends. Texas RE routinely forecasts expenses for the balance of the fiscal year. This ensures that the regional entity is maintaining fiscal discipline and that the Texas RE will be good stewards of the resources appropriated for the purposes of fulfilling the delegation agreement requirements.

2009 Primary Objectives

Texas RE's Primary Goals for 2009 are to:

- A. Effectively communicate with the industry, regulators, and other stakeholders
 - Build cooperative relationships with all registered entities, industry segments, ERCOT Region market participant committees and working groups, and regulators through regular, consistent messaging regarding all of Texas RE's program areas. Continuing strong communications and cooperative relationships will be especially crucial in the year 2009, because the ERCOT Region plans to implement its nodal market system in December 2008.
 - Continue to improve the established communications and relationships with NERC and the other Regional Entities during this second full year for the ERO and Regional Entities to operate under the approved delegation agreements.
 - Deliver a consistent message through a variety of electronic media (including the quarterly newsletter) as a timely and efficient means of providing important information to the industry and the public.
 - Continue to enhance the Texas RE online presence to build identity, awareness, and provide useful information about Texas RE and its mission, through the improved and separate Texas RE public Web site (planned for launch by the end of 2008) which will:
 - Increase awareness of Texas RE's mission and NERC and ERCOT Region-specific requirements for compliance
 - Provide comprehensive information and resources on standards, compliance, and registration requirements, including enforcement of compliance, changes to standards and requirements, and answers to frequently asked questions;
 - Act as a gateway to the externally hosted applications and related external Web sites
 - Attract qualified and diverse staff
 - Promote new information and educational opportunities
 - Serve as the foundation for additional information systems
- B. Prepare and obtain approval of an appropriate Texas RE Business Plan & Budget and Conduct Texas RE Operations within the approved Budget
- C. Effectively manage the NERC Compliance Monitoring and Enforcement Program (CMEP)
- D. Monitor, investigate and report reliability-related non-compliance with ERCOT Region Protocols

- E. Effectively manage the Texas RE Standards Development Process
- F. Establish Key Performance Indicators and Benchmarks for Texas RE operations.

Major 2009 Cost Impacts

Statutory expenses are increasing by over 57% or \$2.2M from the 2008 forecast. This increase is primarily being driven by the following items:

1. Adding 5 additional staff will increase salary and benefits by almost \$600K.
2. Increases for existing staff (merit, promotion and market) totals approximately (salary & benefits) \$240K.
3. Texas RE has experienced some vacancies in staffing during 2008; the resulting difference is estimated to be \$60K.
4. Shifting salary from non-statutory to statutory due to better time estimation is increasing statutory salary and benefits \$106K.
5. Due to the need to relocate Texas RE offices, rent will be increasing by more than \$400K.
6. Texas RE is also establishing a cash reserve for 2009, which is approximately \$855K. This represents the 60 days cash on hand target which assures Texas RE will be appropriately funded.

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 — 2009 Business Plan

Reliability Standards Program

Reliability Standards Program Resources (in whole dollars)			
	2008 Budget	2008 Projection	2009 Budget
Total FTEs	2.00	1.70	1.70
Total Direct Expenses	\$ 215,454	\$ 171,739	\$ 176,491
Total Indirect Expenses ¹	\$ 185,044	\$ 221,277	\$ 308,524
Total Expenses	\$ 400,498	\$ 393,016	\$ 485,014

¹ Indirect expense is allocated to the programs based on the FTEs within the program compared to total FTEs for all programs. The resulting percentage is then applied to the Administrative Services budgets to ensure that each program receives its pro-rata share of the Administrative Services expense.

Background

Texas RE may develop, through its own standards development process, separate Regional Standards that are specific to the ERCOT Region and go beyond, add detail to, or implement NERC Reliability Standards. Texas RE may also utilize the same process to obtain a Regional Variance to a NERC Standard; or develop Regional Standards that cover matters not addressed in NERC Reliability Standards. Regional criteria may be developed separately from NERC Reliability Standards, or may be proposed as 'Regional Standards. Regional criteria that exist separately from NERC Reliability Standards shall not be inconsistent with or less stringent than NERC Reliability Standards.

Regional Standards shall provide for as much uniformity as possible for Reliability Standards across the interconnected bulk power system of the North American continent. Such 'Regional Standards' shall be more stringent than a continent-wide Reliability Standard, or shall be a regional difference that addresses matters that the continent-wide Reliability Standard does not or is necessitated by a physical difference in the bulk power system.

Program Description and Functions Performed

Texas RE's Reliability Standards Development Process will be overseen by a Reliability Standards Committee (RSC) whose purpose is to see that all stakeholder interests are fairly represented in the development of Regional Standards. The RSC will be a broad-based, representative committee consisting of representatives from each of the seven ERCOT Region market participant segments. Participation is open to any person or entity with an interest in the reliability of the ERCOT Region Bulk Power System.

Among other responsibilities, the RSC will review each proposal for development of a new Regional Standard, a variance to a NERC standard, or a modification to or deletion of an existing Regional Standard, to determine if the proposal should be pursued. RSC also oversees the modification to the standards development process. If it so determined, the RSC will forward to the ERCOT Reliability and Operations Subcommittee (ROS) to appoint a reliability standard drafting team that has the necessary technical expertise, competencies, and diversity of views needed to develop the proposed standard. Development of each Regional Standard will include at least one time period for receipt of public comment before the proposed standard is submitted for an approval vote. A separate ballot pool will be established for each standard to allow Registered Ballot Body (RBB) with interest on a particular standard to participate on the voting activity. Upon evaluating the voting results, RSC will determine whether to forward the Regional Standard and the associated package to the Texas RE Board for approval. Finally, if approved by the Board, the Regional Standard will be forwarded to NERC for evaluation and approval and subsequent filing with FERC for its approval. Once FERC approves a

standard and the effective date reached, compliance with the standard is legally binding on all applicable owners, operators, and users within the Texas RE footprint.

Texas RE's Reliability Standards Development Process is designed to build and verify consensus for each Regional Standard. The open, inclusive, balanced and transparent process ensures that the resulting standards are just, reasonable, and nondiscriminatory. Participation by industry experts and compliance personnel ensures that the standards are technically sound, unambiguous, and measurable.

Texas RE's Reliability Standards Group will be responsible for coordinating and facilitating all aspects of the 'Regional Standards' development process. Staff will be actively involved in the NERC Reliability Standards Program, participate on the Reliability Standards Drafting Teams and participate on NERC Readiness Evaluations. The Reliability Standards Group will review each Reliability Standard and notify impacted entities of any new requirements as well as communicate all reliability standards-related information to stakeholders. Staff will also identify any possible training needed by responsible entity personnel to promote understanding and compliance with the new or revised reliability standards.

2009 Goals and Objectives

The goals of the Reliability Standards Program for 2009 are to:

1. Meet all FERC and NERC directives with regard to Regional Standards development and procedures.
2. Develop Regional Standards program communications that educate and inform stakeholders and support the Texas RE Standards Development program objectives.
3. Work closely with the ERO and NERC Registered Entities within the Texas RE enforcement footprint to develop 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.
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 Reliability Standards development process and associated tools.
7. Participate and be actively involved in various NERC Reliability Standards Program and related functions.

Staffing Needs

Hiring Plans

Based on the existing and proposed work as outlined in this business plan Texas RE will maintain the standards program area staff at 2008 levels, however 1 FTE did not start until the 1Q of 2008, therefore there is a slight increase reflected in 2009.

Shared Employees

Not applicable

Contractors

Not applicable

Reliability Standards Program

Funding sources and related expenses for the reliability standards section of the 2009 business plan are shown in the table below.

Statement of Activities					
2008 Budget & Projection, and 2009 Budget					
Reliability Standards					
	2008 Budget	2008 Projection	2008 Projection Variance to 2008 Budget Over(Under)	2009 Budget	2009 Budget Variance to 2008 Projection Over(Under)
Funding					
Assessments	\$ 215,454	\$ 215,454	\$ -	\$ 176,491	\$ (38,963)
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 215,454	\$ 215,454	\$ -	\$ 176,491	\$ (38,963)
Expenses					
Personnel Expenses					
Salaries	\$ 144,806	\$ 125,691	\$ (19,115)	\$ 127,238	\$ 1,547
Payroll Taxes	12,019	10,827	(1,192)	10,179	(648)
Benefits	17,377	13,930	(3,447)	14,320	390
Retirement Costs	16,942	16,981	39	18,450	1,469
Total Personnel Expenses	\$ 191,144	\$ 167,429	\$ (23,715)	\$ 170,187	\$ 2,758
Meeting Expenses					
Meetings	\$ 810	\$ 810	\$ -	\$ -	\$ (810)
Travel	8,500	3,500	(5,000)	4,344	844
Conference Calls	-	-	-	-	-
Total Meeting Expenses	\$ 9,310	\$ 4,310	\$ (5,000)	\$ 4,344	\$ 34
Operating Expenses					
Consultants	\$ -	\$ -	\$ -	\$ -	\$ -
Contracts	-	-	-	-	-
Office Rent	-	-	-	-	-
Office Costs	-	-	-	1,960	1,960
Professional Services	-	-	-	-	-
Computer Purchase & Maintenance	-	-	-	-	-
Furniture & Equipment	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Contingency	15,000	-	(15,000)	-	-
Total Operating Expenses	\$ 15,000	\$ -	\$ (15,000)	\$ 1,960	\$ 1,960
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 215,454	\$ 171,739	\$ (43,715)	\$ 176,491	\$ 4,752
Change in Assets	\$ -	\$ 43,715	\$ 43,715	\$ -	\$ (43,715)

Summary of 2008 Projection and 2009 Budgeted Funding and Expenses

Funding and expenses in this section provide for the following items to meet the objectives as defined in the business plan section of this document:

Funding Sources

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

Personnel Expenses

- Expenses are higher related to maintaining full staff in 2009.

Meeting Expenses

- Travel expenses are virtually unchanged from the 2008 forecast to the 2009 budget.

Operating Expenses

- Operating expenses include fees related to dues and professional fees.

Compliance Monitoring and Enforcement and Organization Registration and Certification Program

Compliance Monitoring and Enforcement and Organization Registration and Certification Program Resources (in whole dollars)			
	2008 Budget	2008 Projection	2009 Budget
Total FTEs	6.40	12.40	14.15
Total Direct Expenses	\$ 892,898	\$1,186,451	\$1,628,935
Total Indirect Expenses ¹	\$ 589,827	\$1,614,023	\$2,578,245
Total Expenses	\$1,482,725	\$2,800,474	\$4,207,180

Overview

The purpose of Texas RE's Compliance Monitoring and Enforcement Program (CMEP) is to maintain the reliability of the ERCOT Region Bulk Power System. NERC oversees each Regional Entity's Compliance Program. Texas RE is responsible for monitoring, assessing, and enforcing compliance with NERC Reliability Standards, Regional Standards, and requirements by the owners, operators, and users of the bulk power system in the ERCOT Region. The CMEP activities make up the majority of the work currently done by Texas RE and the other Regional Entities. The CMEP focuses on four primary areas: identification and registration of organizations responsible for complying with Reliability Standards (Organization Registration and Certification), monitoring of the registered entities for compliance with Reliability Standards (Compliance Monitoring), determination and reporting to NERC of violations of Reliability Standards by registered entities (Enforcement Actions), and ensure correction of noncompliance and violations when identified (Mitigation of Violations). Texas RE maintains processes and procedures for data gathering, reporting, investigating, auditing, assessing, penalizing and sanctioning violators, and mitigating non-compliance.

The CMEP is a relatively new program. As such, Texas RE has focused its efforts on building new policies and procedures to support the evolving requirements that are being developed at the national level. As the organization begins to mature in 2009, Texas RE will review its organizational structure, processes and procedures with the intent to improve the quality of its work and begin the task of analyzing how we can mitigate the cost of compliance. The reliability of the Bulk Power System will always remain the unquestionable number one priority of the organization.

Organization Registration and Certification Program Description and Functions

Texas RE is responsible for identifying and registering each entity that is responsible for performing each NERC function in the ERCOT Region, in accordance with 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 owners, operators, and users of the bulk power system for compliance monitoring purposes.

The amount of work related to entity registration is higher than expected in 2008 and is predicted to remain at a high level through 2009 due to on-going changes to responsibilities and definitions of the Register Entity functions, additional NERC and FERC procedural requirements, and the unique requirements and procedures required by the ERCOT Region Protocols.

Specifically, NERC is expected to approve the new definition of the Load Serving Entity (LSE) function before the end of 2008, which will drive the need to implement LSE registrations (which could number between 35 and several hundred, depending upon the final definition) during 2009. Additionally, the joint

registration (JRO) process (joint registrations with split tasks and responsibilities on a sub-requirement level between Registered Entities) requires significant review and approval by Texas RE and is expected to significantly impact work load. If the anticipated joint registrations for the transmission operator (TOP) function are completed during 2008 as expected, Texas RE estimates that nine certification audits will be added in the ERCOT Region in 2009 to support the 28 new TOP entities. Only 9 of the TOP certification audits are included in the 2009 business plan and budget.

Additionally, some registrations have been contested, particularly due to some of the unique procedures in the ERCOT Region Protocol. Texas RE has a regional registration appeals process and its staff must support Texas RE's position on appeals made by entities through the NERC and FERC appeal process. It is predicted that significant effort will continue to be expended in this area in 2009. Registration and, in some cases, certification of the organizations responsible for complying with the standards will be an ongoing activity.

The list of registered entities in the ERCOT Region continues to evolve and currently includes:

- 93 Generator Owners
- 58 Generator Operators
- 24 Transmission Planners
- 28 Transmission Owners
- 39 Distribution Providers
- 34 Purchasing Selling Entities
- 1 Transmission Operator, Reliability Coordinator, Balancing Authority, Planning Authority, Resource Planner, Transmission Service Provider, and Interchange Authority (ERCOT ISO)

2009 Goals Organization Registration and Certification:

1. Maintain an accurate registration list of all owners, operators, and users of the bulk power system 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 procedures, policies and databases with NERC and FERC, and implement and communicate changes as necessary.
4. Appropriately address all registration appeals to completion.
5. Implement organization certification in accordance with NERC processes, some of which are still under development – conduct required audits.
6. Maintain processes and procedures for carrying out the delegated certification activities that are required by the certification standards.
7. Complete a review of policies and procedures with the goal of improving clarity of communications with registered entities and to determine how it may be possible to mitigate the cost of compliance without impacting reliability.
8. Implement recommendations from the upcoming NERC audit of Texas RE.

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 will strive to maintain a high level of reliable operation of the ERCOT Region Bulk Power System by its owners, operators, and users. Ensuring the reliable operation of the Bulk Power System will benefit all owners, operators, and users of the Bulk Power System in the ERCOT Region.

The CMEP currently has 86 NERC Reliability Standards that were approved by FERC in 2007, and eight (8) Cyber Security Reliability Standards that were approved by FERC in 2008. The 86 standards approved in 2007 have more than 3,000 requirements and sub-requirements. There are more NERC

Reliability Standards in the development and approval process, and Texas RE anticipates that at least some Regional Standards will be approved starting in 2008.

A key, and the most well known component of the CMEP is the compliance audit, but Texas RE uses eight (8) different monitoring processes to collect information to confirm compliance with NERC Reliability Standards:

1. Compliance Audits,
2. Self-Certifications,
3. Spot Checking,
4. Compliance Violation Investigations,
5. Self-Reporting,
6. Periodic Data Submittals,
7. Exception Reporting, and
8. Complaints

Texas RE maintains a program of proactive enforcement audits and reviews. Each owner, operator, or user of the Bulk Power System is responsible for complying with NERC Reliability Standards, Regional Standards, and Texas RE audits these Reliability Standards on a recurring basis using an approved audit plan coordinated with NERC and augmented for regional needs. A Compliance Audit is performed to determine compliance with applicable Reliability Standards on a three and/or six-year cycle, depending on the entity's registration, and an audit report is issued for each audit.

In any years that a registered entity does not receive a Compliance Audit, Texas RE will require a compliance Self-Certification from the entity, using electronic forms developed and distributed by Texas RE. The entity must certify that it is in compliance with each designated measure or disclose any non-compliance and submit the self-certification to the Texas RE by the date specified in the request by the Texas RE. Texas RE may require Registered Entities to self-certify their compliance with reliability standards at other times as well. Texas RE performs Spot Checks of registered entities to (1) confirm compliance certified on Self-Certifications, (2) follow up on Self Reports and Periodic Data Submittals, (3) confirm completion of mitigation plans, and (4) follow up on complaints 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.

A Compliance Violation Investigation is a more involved, possibly time consuming, and formal process than a compliance analysis, and the investigation team includes NERC staff and FERC staff. At this time, Texas RE is estimating to complete 54 compliance analyses in 2009, which is the same estimate used for 2008.

To date, there have been no major events analyzed using the CVI process in the ERCOT Region. It is anticipated that there will be at least one CVI in 2008 based on activity to date, but it is impossible to accurately predict CVI level activity in 2009. The inability to predict workload and thus to be prepared for this type of work is very difficult.

The budget for Compliance Audits is based on the current number of registered entities in the ERCOT Region. There is little probability that this number will decrease, and some evidence that it could increase significantly beyond current levels. An example would be the proposal to add 28 TOP registered entities through joint registration with the ERCOT ISO. Such a change would require a revision to our audit schedule and would most likely result in a need to request additional resources at a later date,

2009 Compliance Monitoring and Enforcement Program Goals and Objectives

1. Complete Compliance Audits per the 2009 schedule including additional audits required by joint registrations.
2. Conduct required Compliance Violation Investigations (budgeted for 1).
3. Conduct compliance analysis of all significant events and other system disturbances.
4. Analyze and investigate all Complaints.
5. Complete Self-Certifications for all registered entities.
6. Perform Spot Checks.
7. 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.
8. Complete a review of policies and procedures with the goal of improving the clarity of communications with Register Entities, to determine how to mitigate the cost of compliance without impacting reliability, and meeting compliance with NERC ROP modifications and NERC guidance.
9. Implement recommendations from the upcoming NERC audit of Texas RE.

Staffing Needs

Hiring Plans

Based on the existing and proposed work as outlined in this business plan Texas RE will need to increase staffing for the compliance enforcement and organization registration and certification program area to a total of 14.15 FTEs for 2009.

Shared Employees

Not applicable

Contractors

Not applicable

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 2009 business plan are shown in the table below.

Statement of Activities					
2008 Budget & Projection, and 2009 Budget					
Compliance and Organization Registration and Certification					
	2008 Budget	2008 Projection	2008 Projection Variance to 2008 Budget Over(Under)	2009 Budget	2009 Budget Variance to 2008 Projection Over(Under)
Funding					
Assessments	\$ 892,898	\$ 892,898	\$ -	\$ 1,628,935	\$ 736,037
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 892,898	\$ 892,898	\$ -	\$ 1,628,935	\$ 736,037
Expenses					
Personnel Expenses					
Salaries	\$ 584,760	\$ 838,426	\$ 253,666	\$ 1,164,106	\$ 325,680
Payroll Taxes	48,535	74,651	26,116	93,128	18,477
Benefits	70,171	107,828	37,657	134,510	26,682
Retirement Costs	68,417	104,736	36,319	163,258	58,522
Total Personnel Expenses	\$ 771,883	\$ 1,125,641	\$ 353,758	\$ 1,555,003	\$ 429,362
Meeting Expenses					
Meetings	\$ 810	\$ 810	\$ -	\$ -	\$ (810)
Travel	46,205	60,000	13,795	73,199	13,199
Conference Calls	-	-	-	-	-
Total Meeting Expenses	\$ 47,015	\$ 60,810	\$ 13,795	\$ 73,199	\$ 12,389
Operating Expenses					
Consultants	\$ -	-	\$ -	\$ -	\$ -
Contracts	-	-	-	-	-
Office Rent	-	-	-	-	-
Office Costs	-	-	-	600	600
Professional Services	-	-	-	-	-
Computer Purchase & Maintenance	-	-	-	132	132
Furniture & Equipment	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Contingency	74,000	-	(74,000)	-	-
Total Operating Expenses	\$ 74,000	\$ -	\$ (74,000)	\$ 732	\$ 732
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 892,898	\$ 1,186,451	\$ 293,553	\$ 1,628,935	\$ 442,484
Change in Assets	\$ -	\$ (293,553)	\$ (293,553)	\$ -	\$ 293,553

Summary of 2008 projection and 2009 budgeted funding and expenses

Funding and expenses in this section provide for the following items to meet the objectives as defined in the business plan.

Funding Sources

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

Personnel Expenses

- Expenses are higher related to maintaining the 2008 budgeted personnel and due to adding an additional 1.8 FTEs in 2009. This represents approximately \$165K in annual expenses.
- In 2008, there were several vacancies throughout the operating year that are expected to be filled before the 2009 operating year, thus increasing total personnel expenses. This represents approximately \$130K in annual expenses.
- Finally, due to more time being spent on statutory activities, there was a shift in expenses from non-statutory to statutory personnel expenses. This represents approximately \$30K in annual expenses.

Meeting Expenses

- Travel expenses are approximately 22% higher in 2009 due to travel rate increases and additional audits scheduled for 2009.

Operating Expenses

- Operating expenses include fees related to dues and professional fees. This expense category is negligible.

Reliability Readiness Evaluation and Improvement Program

Reliability Readiness Evaluation and Improvement Program Resources (in whole dollars)			
	2008 Budget	2008 Projection	2009 Budget
Total FTEs	0.40	0.30	0.00
Total Direct Expenses	\$ 58,345	\$ 43,225	\$ 0
Total Indirect Expenses ¹	\$ 34,696	\$ 39,049	\$ 0
Total Expenses	\$ 93,041	\$ 82,274	\$ 0

Background

Reliability Readiness Evaluation is being eliminated in 2009, based on a restructuring plan proposal made by NERC. The function continues to exist, however is located within the Compliance, Registration and Certification function and will serve to ensure that Texas RE will be able to conduct certification audits.

Reliability Readiness Evaluation and Improvement Program

Funding sources and related expenses for the compliance enforcement and organization registration and certification section of the 2009 business plan are shown in the table below.

Statement of Activities					
2008 Budget & Projection, and 2009 Budget					
Reliability Readiness Evaluation and Improvement					
	2008 Budget	2008 Projection	2008 Projection Variance to 2008 Budget Over(Under)	2009 Budget	2009 Budget Variance to 2008 Projection Over(Under)
Funding					
Assessments	\$ 58,345	\$ 58,345	\$ -	\$ -	\$ (58,345)
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 58,345	\$ 58,345	\$ -	\$ -	\$ (58,345)
Expenses					
Personnel Expenses					
Salaries	\$ 32,368	\$ 32,368	\$ -	\$ -	\$ (32,368)
Payroll Taxes	2,686	2,686	-	-	(2,686)
Benefits	3,884	3,884	-	-	(3,884)
Retirement Costs	3,787	3,787	-	-	(3,787)
Total Personnel Expenses	\$ 42,725	\$ 42,725	\$ -	\$ -	\$ (42,725)
Meeting Expenses					
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	10,620	500	(10,120)	-	(500)
Conference Calls	-	-	-	-	-
Total Meeting Expenses	\$ 10,620	\$ 500	\$ (10,120)	\$ -	\$ (500)
Operating Expenses					
Consultants	\$ -	\$ -	\$ -	\$ -	\$ -
Contracts	-	-	-	-	-
Office Rent	-	-	-	-	-
Office Costs	-	-	-	-	-
Professional Services	-	-	-	-	-
Computer Purchase & Maintenance	-	-	-	-	-
Furniture & Equipment	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Contingency	5,000	-	(5,000)	-	-
Total Operating Expenses	\$ 5,000	\$ -	\$ (5,000)	\$ -	\$ -
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 58,345	\$ 43,225	\$ (15,120)	\$ -	\$ (43,225)
Change in Assets	\$ -	\$ 15,120	\$ 15,120	\$ -	\$ (15,120)

Training, Education, and Operator Certification Program

Training, Education, and Operator Certification Program Resources (in whole dollars)			
	2008 Budget	2008 Projection	2009 Budget
Total FTEs	0.38	0.40	0.60
Total Direct Expenses	\$ 143,503	\$ 51,763	\$ 176,415
Total Indirect Expenses ¹	\$ 34,696	\$ 52,065	\$ 106,397
Total Expenses	\$ 178,199	\$ 103,828	\$ 282,812

Background

The Training, Education and Operator Certification Program is being expanded to include 3 major functions: Operator Training and Certification, Compliance Awareness, and Auditor Training.

Texas RE Staff chairs and actively participates on the Operations Training Seminar Oversight Working Group which is responsible for developing, planning, arranging, and monitoring the annual ERCOT ISO Operations Training Seminar. The working group is responsible for measuring how the Seminar is meeting objectives which provide training on power system fundamentals, current events, and other timely issues determined by the working group. Emphasis is placed on topics that focus on enhancing the performance of bulk power system operating personnel. The target audience for the seminar is ERCOT ISO System Operators, Qualified Scheduling Entity (QSE) Operators, and Transmission/Distribution System Provider (TDSP) Operators and those who provide management, supervision, and support for the operators. The seminar is also open to Power Generation Company (PGC) Operators, Wholesale Power Marketers, Retail Electric Providers, and others associated with the bulk power system.

Texas RE held two Compliance Workshops in 2008. These workshops focused on helping registered entities to better understand the Reliability Compliance Process and to communicate changes in requirements and the processes. This forum is focused on communications and is training in the traditional sense.

Auditor training has relied on NERC sources historically.

Program Description and Functions Performed

Operator Training & Certification

Developing training and education programs for bulk power system operating personnel and other targeted audiences is an important component of the Texas RE. Providing a training and education program for the operating personnel of owners, operators, and users of the bulk power system relating to their compliance with Regional Standards and other reliability-related job functions helps to achieve a higher level of knowledge and competence. It also helps to promote a culture of compliance within the industry, and thereby helps to further ensure the reliable operation of the ERCOT Region Bulk Power System. Beginning in 2007, NERC's Continuing Education Hours (CEH) programs have been offered for attending the ERCOT Training Seminar. System Operators attending the seminar received up to 19 CEHs. Many of these hours can also be used to satisfy NERC and ERCOT ISO requirements for system emergency training.

The Twenty-Fifth Annual ERCOT ISO Operations Training Seminar, was held in March and April of 2008, and offered up to 27 CEHs and up to 25.5 Emergency Operation (EOP) training hours. A similar program is planned for 2009.

Texas RE Staff will also continue to coordinate and facilitate the ERCOT ISO Operator Certification Test given to System Operators and operations support personnel. Texas RE Staff will continue to maintain and update the ERCOT ISO Fundamentals Training Manual which was designed and written to serve as a study tool for System Operator Certification Tests and to serve as a readily available reference document. The Manual contains descriptions of fundamental topics in electrical power and ERCOT ISO power system operations.

Compliance Workshops

Texas RE will schedule two Compliance workshops in 2009. The workshops will be designed to address the highest priority issues at the time for the Registered Entities.

Auditor Training

Texas RE will develop a new training program that will expand the goal of improving auditing skills to include methods to improve consistency between audit teams within Texas RE and also between Texas RE and other regions.

2009 Goals and Objectives

1. Coordinate and facilitate the annual Operator Training Seminar in 2009.
2. Create internal training programs for Texas RE staff.
3. Coordinate and facilitate 2 compliance workshops to be attended by registered entities and other stakeholders.
4. Assist with developing and providing training to registered entities as needed (i.e. cyber-security).

Staffing Needs

Hiring Plans

Based on the existing and proposed work as outlined in this business plan, Texas RE will require an additional .2 FTEs of staff for 2009.

Shared Employees

Not applicable

Contractors

Not applicable

Training, Education, and Operator Certification Program

Funding sources and related expenses for the training, education, and operator certification section of the 2009 business plan are shown in the table below.

Statement of Activities					
2008 Budget & Projection, and 2009 Budget					
Training and Education					
	2008 Budget	2008 Projection	2008 Projection Variance to 2008 Budget Over(Under)	2009 Budget	2009 Budget Variance to 2008 Projection Over(Under)
Funding					
Assessments	\$ 73,503	\$ 73,503	\$ -	\$ 106,415	\$ 32,912
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	70,000	-	(70,000)	70,000	70,000
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 143,503	\$ 73,503	\$ (70,000)	\$ 176,415	\$ 102,912
Expenses					
Personnel Expenses					
Salaries	\$ 38,154	\$ 38,154	\$ -	\$ 52,608	\$ 14,454
Payroll Taxes	3,167	3,167	-	4,209	1,042
Benefits	4,578	4,578	-	5,524	946
Retirement Costs	4,464	4,464	-	7,628	3,164
Total Personnel Expenses	\$ 50,363	\$ 50,363	\$ -	\$ 69,969	\$ 19,606
Meeting Expenses					
Meetings	\$ 70,000	\$ -	\$ (70,000)	\$ 105,000	\$ 105,000
Travel	10,140	1,400	(8,740)	1,446	46
Conference Calls	-	-	-	-	-
Total Meeting Expenses	\$ 80,140	\$ 1,400	\$ (78,740)	\$ 106,446	\$ 105,046
Operating Expenses					
Consultants	\$ -	\$ -	\$ -	\$ -	\$ -
Contracts	-	-	-	-	-
Office Rent	-	-	-	-	-
Office Costs	-	-	-	-	-
Professional Services	-	-	-	-	-
Computer Purchase & Maintenance	-	-	-	-	-
Furniture & Equipment	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Contingency	13,000	-	(13,000)	-	-
Total Operating Expenses	\$ 13,000	\$ -	\$ (13,000)	\$ -	\$ -
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 143,503	\$ 51,763	\$ (91,740)	\$ 176,415	\$ 124,652
Change in Assets	\$ -	\$ 21,740	\$ 21,740	\$ -	\$ (21,740)

Summary of 2008 Projection and 2009 Budgeted Funding and Expenses

Funding and expenses in this section provide for the following items to meet the objectives as defined in the business plan section of this document:

Funding Sources

- Funding is received through assessment income and training reimbursements. The program funding streams are designed to fully fund total expenses.
- Expect to receive \$70K in training reimbursement fees to offset the cost of the operator training seminar.

Personnel Expenses

- Expenses are higher related to the addition of .20 FTEs for 2009, which is higher than the 2008 forecast of personnel for the full year.

Meeting Expenses

- Travel expenses are virtually unchanged.
- Meeting expenses are expected to be \$105K. \$70K related to the operator training seminar and \$35K for 2 other workshops to be held throughout the year to facilitate expanded training.

Operating Expenses

- None expected.

Reliability Assessment and Performance Analysis Program

Reliability Assessment and Performance Analysis Program Resources (in whole dollars)			
	2008 Budget	2008 Projection	2009 Budget
Total FTEs	5.25	1.35	2.20
Total Direct Expenses	\$ 574,242	\$ 221,020	\$ 365,180
Total Indirect Expenses ¹	\$ 485,740	\$ 182,228	\$ 399,266
Total Expenses	\$1,059,982	\$ 403,248	\$ 764,446

Background

The Reliability Assessment and Performance Analysis Program has two major functions. The first is to conduct compliance analyses of systems events to determine whether any non-compliance with the standards are the root cause of the event and how these events relate to the reliability of the Bulk Power System. The second is to create regular reports that are required by NERC, Texas RE's Board and the Public Utility Commission of Texas (PUCT) that provide insight into how the Bulk Power System is performing. In addition to the regular reports, this program also supports special reports and data requests.

Program Description and Functions Performed

Event Analysis

Texas RE directly monitors data from the ERCOT ISO IT systems to determine if Bulk Power System events occurred having potential reliability issues. In addition, the ERCOT ISO, through a working agreement with Texas RE, reports any incidents that they believe impact system reliability issues or that are potential reliability standards or Protocol violations. Texas RE reviews events from both of these sources to determine the root cause of the event and determine whether additional review is needed to address either reliability concerns or possible violations. This analysis is needed to determine if the system(s) and equipment involved are operating correctly and are being properly applied, maintained, and/or tested. During its analysis process, Texas RE makes a number of requests for data and documentation from registered entities and may need to have on-site visits with the registered entities.

Currently, Texas RE has 1.4 dedicated staff for the reliability assessment function. To enable us to improve our ability to respond more quickly to events we are increasing staff to 2.2 FTEs.

Reporting

ERCOT ISO prepares three reliability assessments each year for the region: a long-term reliability assessment report; a summer assessment report; and a winter assessment report. These reports analyze electricity demand and the adequacy of supply in the ERCOT Region as well as examine the adequacy of the transmission system. Texas RE reviews these assessments to understand any changes in the reliability of the transmission system and if any new threats to reliability are uncovered. Reliability assessment reports will also be prepared in response to unusual events or to support requests from NERC, FERC or the PUCT. Results of independent assessments of the overall reliability and adequacy of the ERCOT Bulk Power System will be reviewed and reported for 2009 summer, 2009/2010 winter, and 2009-2018.

This group also supports the preparation of reports for the Texas RE Board and the PUCT.

2009 Goals and Objectives

1. Selectively monitor system operations and extract data at various intervals to meet reporting requirements and assess performance and compliance with NERC and Regional Standards.
2. Periodic data submittal review and analysis.
3. Ensure that there is sufficient resources to conduct event analyses and provide analytical reports related to reliability.

Staffing Needs

Hiring Plans

Based on the existing and proposed work as outlined in this business plan, Texas RE will require an additional .8 FTEs for 2009.

Shared Employees

Not applicable

Contractors

Not applicable

Reliability Assessment and Performance Analysis Program

Funding sources and related expenses for the reliability assessment and performance analysis section of the 2009 business plan are shown in the table below.

Statement of Activities					
2008 Budget & Projection, and 2009 Budget					
Reliability Assessment and Performance Analysis					
	2008 Budget	2008 Projection	2008 Projection Variance to 2008 Budget Over(Under)	2009 Budget	2009 Budget Variance to 2008 Projection Over(Under)
Funding					
Assessments	\$ 574,242	\$ 574,242	\$ -	\$ 365,180	\$ (209,062)
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 574,242	\$ 574,242	\$ -	\$ 365,180	\$ (209,062)
Expenses					
Personnel Expenses					
Salaries	\$ 385,676	\$ 180,090	\$ (205,586)	\$ 270,100	\$ 90,010
Payroll Taxes	32,011	10,857	(21,154)	21,608	10,751
Benefits	46,281	12,887	(33,394)	31,191	18,304
Retirement Costs	45,124	14,576	(30,548)	39,165	24,589
Total Personnel Expenses	\$ 509,092	\$ 218,410	\$ (290,682)	\$ 362,063	\$ 143,653
Meeting Expenses					
Meetings	\$ 810	\$ 810	\$ -	\$ -	\$ (810)
Travel	4,340	1,800	(2,540)	3,117	1,317
Conference Calls	-	-	-	-	-
Total Meeting Expenses	\$ 5,150	\$ 2,610	\$ (2,540)	\$ 3,117	\$ 507
Operating Expenses					
Consultants	\$ -	\$ -	\$ -	\$ -	\$ -
Contracts	-	-	-	-	-
Office Rent	-	-	-	-	-
Office Costs	-	-	-	-	-
Professional Services	-	-	-	-	-
Computer Purchase & Maintenance	-	-	-	-	-
Furniture & Equipment	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Contingency	60,000	-	(60,000)	-	-
Total Operating Expenses	\$ 60,000	\$ -	\$ (60,000)	\$ -	\$ -
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 574,242	\$ 221,020	\$ (353,222)	\$ 365,180	\$ 144,160
Change in Assets	\$ -	\$ 353,222	\$ 353,222	\$ -	\$ (353,222)

Summary of 2008 Projection and 2009 Budgeted Funding and Expenses

Funding and expenses in this section provide for the following items to meet the objectives as defined in the business plan.

Funding Sources

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

Personnel Expenses

- Expenses are expected to be lower and reflect the expected labor required in 2009 based on an assessment of time tracking. For 2008, it was assumed that there would be substantially more hours required to complete the requisite work-load. The difference in FTEs forecast for 2008 from the 2008 budget were reallocated to primarily the Compliance, Registration and Certification program areas as necessary.

Meeting Expenses

- Travel expenses are expected to be \$3K to facilitate the travel needs of this function as it relates to NERC meetings and travel associated with this function.

Operating Expenses

- None expected.

Situation Awareness and Infrastructure Security Program

Situational Awareness and Infrastructure Security Program Resources			
(in whole dollars)			
	2008 Budget	2008 Projection	2009 Budget
Total FTEs	0.40	0.60	1.50
Total Direct Expenses	\$ 46,925	\$ 43,325	\$ 159,129
Total Indirect Expenses ¹	\$ 34,696	\$ 78,098	\$ 268,443
Total Expenses	\$ 81,621	\$ 121,423	\$ 427,572

Background

This program supports two distinct functions. Situational Analysis is focused on near real-time analysis of the Bulk Power System for ERCOT ISO. Infrastructure Security focuses on protecting tangible assets from a variety of threats. The majority of activity for this program in 2009 relates to Infrastructure Security, however, some resources are also planned for Situational Analysis.

Infrastructure Security Program

Responsible Entities must become compliant with Critical Infrastructure Protection (CIP) Standards based on the NERC implementation schedules. ERCOT ISO is the only designated Balancing Authority (BA), Transmission Operator (TOP), and Reliability Coordinator (RC) in the ERCOT Region and was required to self-certify compliance to NERC's Urgent Action Cyber Security Standard 1200. As such, ERCOT ISO must be either compliant or substantially compliant with all CIP Standards requirements by the end of the second quarter 2008; either auditably compliant or compliant with all of the CIP Standards requirements by the end of the second quarter 2009; and auditably compliant with all CIP Standards requirements by the end of the second quarter 2010.

Entities registered in the ERCOT Region as Transmission Owners, Generator Owners, Generator Operators, or Load-Serving Entities have begun work on being compliant with all CIP Standards requirements during the second quarter 2007. These registered entities must also be substantially compliant or compliant with all CIP Standards requirements within twelve months after registration is completed; compliant or auditably compliant with all CIP Standards Requirements within twenty-four months after registration is completed; and auditably compliant with all CIP Standards Requirements within thirty-six months after registration is completed. All new registered entities must also become compliant with all CIP Standards requirements in accordance with the compliance schedule.

The Texas RE will continue to play an active role during the implementation of the CIP Standards requirements. To provide time for Responsible Entities to examine their policies and procedures, to assemble the necessary documentation, and to meet the requirements of the CIP Standards, compliance assessment began in 2007. Status reports are also being requested from Responsible Entities to verify that entities are on schedule and meeting the implementation plan. NERC expects its regional entities to provide assistance and education on the CIP Standards to ease the transition. Texas RE is budgeting to provide training to registered entities and other stakeholders under the training function budget. Some of the content in this training will be related to cyber-security and will be internally developed.

Program Description and Functions Performed

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 Bulk Power System identify and protect critical cyber assets that control or could impact the reliability of the Bulk Power System. The CIP Standards

requirements are being communicated to all responsible entities to ensure compliance in accordance with the Cyber Security Standards 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.

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. Starting in mid 2008 Texas RE will work with the ERCOT ISO to install a real-time monitoring workstation and any needed training to allow Texas RE to monitor the real-time events on the system.

2009 Goals and Objectives

1. Implement first CIP audit with ERCOT ISO
2. Maintain a real-time link to the ERCOT ISO system including a Situational Awareness workstation.
3. Ensure system information is communicated to NERC and FERC in a timely manner.
4. Develop and deliver CIP education plan and workshop for registered entities.
5. Enhance Texas RE website with CIP information and links

Staffing Needs

Hiring Plans

Based on the existing and proposed work as outlined in this business plan, Texas RE will require an additional .9 FTEs of staff for 2009. However, this position will already have been added in 2008, but will be added mid-year.

Shared Employees

Not applicable

Contractors

Not applicable

Situation Awareness and Infrastructure Security Program

Funding sources and related expenses for the situation awareness and infrastructure security section of the 2009 business plan are shown in the table below.

Statement of Activities					
2008 Budget & Projection, and 2009 Budget					
Situational Awareness and Infrastructure Security					
	2008 Budget	2008 Projection	2008 Projection Variance to 2008 Budget Over(Under)	2009 Budget	2009 Budget Variance to 2008 Projection Over(Under)
Funding					
Assessments	\$ 46,925	\$ 46,925	\$ -	\$ 159,129	\$ 112,204
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 46,925	\$ 46,925	\$ -	\$ 159,129	\$ 112,204
Expenses					
Personnel Expenses					
Salaries	\$ 32,368	\$ 32,368	\$ -	\$ 118,842	\$ 86,474
Payroll Taxes	2,687	2,687	-	9,507	6,820
Benefits	3,883	3,883	-	12,479	8,596
Retirement Costs	3,787	3,787	-	17,232	13,445
Total Personnel Expenses	\$ 42,725	\$ 42,725	\$ -	\$ 158,060	\$ 115,335
Meeting Expenses					
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	200	600	400	1,069	469
Conference Calls	-	-	-	-	-
Total Meeting Expenses	\$ 200	\$ 600	\$ 400	\$ 1,069	\$ 469
Operating Expenses					
Consultants	\$ -	\$ -	\$ -	\$ -	\$ -
Contracts	-	-	-	-	-
Office Rent	-	-	-	-	-
Office Costs	-	-	-	-	-
Professional Services	-	-	-	-	-
Computer Purchase & Maintenance	-	-	-	-	-
Furniture & Equipment	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Contingency	4,000	-	(4,000)	-	-
Total Operating Expenses	\$ 4,000	\$ -	\$ (4,000)	\$ -	\$ -
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 46,925	\$ 43,325	\$ (3,600)	\$ 159,129	\$ 115,804
Change in Assets	\$ -	\$ 3,600	\$ 3,600	\$ -	\$ (3,600)

Summary of 2008 Projection and 2009 Budgeted Funding and Expenses

Funding and expenses in this section provide for the following items to meet the objectives as defined in the business plan.

Funding Sources

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

Personnel Expenses

- Expenses are expected to be higher due to the need to dedicate a full-time Staff position to the CIP function as well as have additional fractional labor support from other areas to collaborate on CIP related standards and projects and situational awareness.

Meeting Expenses

- Travel expenses are expected to be \$1K to facilitate the travel needs of this function as it relates to NERC meetings.

Operating Expenses

- None expected.

Administrative Services

Administrative Services (in whole dollars)			
	2008 Budget	2008 Projection	2009 Budget
Total FTEs	4.5	4.0	6.8
Total Indirect Expenses	\$1,364,699	\$2,186,741	\$3,660,875

General and Administrative

Functional Description

The CEO & CCO carries on the general affairs of the Texas RE. The CEO & CCO is independent of any registered entity and reports exclusively to the Texas RE Board of Directors. The CEO & CCO is responsible for:

- Overseeing and managing the activities of Texas RE.
- Making final decisions with respect to enforcement related to compliance actions for violations of reliability standards.
- Making employment-related decisions for all employees of Texas RE.
- Making an annual report and periodic reports to Texas RE's Board concerning the activities and expenditures of Texas RE.
- Ensuring that Texas RE files all required reports with NERC.
- Monitoring the expenditures of the monies received by Texas RE to ensure that such are deployed in accordance with the approved Texas RE Budget (in cooperation with the Finance Staff).
- Retaining or terminating outside counsel or other advisors as deemed appropriate.
- Performing such other duties as may be determined from time to time by Texas RE's Board, for the benefit of the Texas RE.

An Executive Assistant will be responsible for providing executive-level administrative support to the Texas RE CEO & CCO. The Executive Assistant will also perform general office manager activities and provide support to other Texas RE Staff as needed.

2009 Goals and Objectives

1. Communicate and maintain effective relationships with the industry, regulators, and other stakeholders.
2. Conduct base operations with the approved budget.
3. Effectively manage the NERC Compliance Monitoring and Enforcement Program.
4. Monitor and investigate Non-Compliance with ERCOT Region Protocols and Operating Guides.
5. Manage Texas RE's Standards development process.
6. Establish Key Performance Indicators and Benchmarks for Texas RE operation.

Staffing Needs

Hiring Plans

Based on the existing and proposed work as outlined in this business plan, Texas RE will require an additional 2.0 FTEs of staff for 2009. These positions are in support of the IT and Legal

functions. However, these positions have been budgeted within the G&A function budget to maintain confidentiality.

Shared Employees

Texas RE does receive Facilities, Treasury, Finance, Human Resources, Legal, and Information Technology support from ERCOT ISO. There is a Memorandum of Understanding outlining the details of the services and the associated expenses, a summary of which is attached.

Contractors

Not applicable

Section A — 2009 Business Plan

General and Administrative

Funding sources and related expenses for the general and administrative section of the 2009 business plan are shown in the table below.

Statement of Activities					
2008 Budget & Projection, and 2009 Budget					
General and Administrative					
	2008 Budget	2008 Projection	2008 Projection Variance to 2008 Budget Over(Under)	2009 Budget	2009 Budget Variance to 2008 Projection Over(Under)
Funding					
Assessments	\$ 1,206,639	\$ 1,206,639	\$ -	\$ 257,531	\$ (949,108)
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	92,500	92,500	-	(92,500)
Miscellaneous	-	-	-	-	-
Total Funding	\$ 1,206,639	\$ 1,299,139	\$ 92,500	\$ 257,531	\$ (1,041,608)
Expenses					
Personnel Expenses					
Salaries	\$ 500,157	\$ 500,157	\$ -	\$ 764,074	\$ 263,917
Payroll Taxes	41,513	41,513	-	61,126	19,613
Benefits	60,021	60,021	-	61,605	1,584
Retirement Costs	58,518	58,518	-	110,791	52,273
Total Personnel Expenses	\$ 660,209	\$ 660,209	\$ -	\$ 997,596	\$ 337,387
Meeting Expenses					
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	6,480	12,120	5,640	12,820	700
Conference Calls	1,000	-	(1,000)	-	-
Total Meeting Expenses	\$ 7,480	\$ 12,120	\$ 4,640	\$ 12,820	\$ 700
Operating Expenses					
Consultants	\$ -	\$ -	\$ -	\$ 6,000	\$ 6,000
Contracts	89,000	203,585	114,585	280,654	77,069
Office Rent	80,000	165,000	85,000	517,550	352,550
Office Costs	15,950	10,788	(5,162)	13,320	2,532
Professional Services	160,000	311,700	151,700	30,000	(281,700)
Computer Purchase & Maintenance	123,000	149,500	26,500	200,400	50,900
Furniture & Equipment	-	-	-	-	-
Miscellaneous	-	-	-	10,515	10,515
Contingency	71,000	-	(71,000)	-	-
Total Operating Expenses	\$ 538,950	\$ 840,573	\$ 301,623	\$ 1,058,439	\$ 217,866
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ 855,000	\$ 855,000
Total Expenses	\$ 1,206,639	\$ 1,512,902	\$ 306,263	\$ 2,923,855	\$ 1,410,953
Change in Assets	\$ -	\$ (213,763)	\$ (213,763)	\$ (2,666,324)	\$ (2,452,561)

Salaries for all Administrative Functions have been consolidated under the G&A function to ensure personnel confidentiality.

Summary of 2008 Projection and 2009 Budgeted Funding and Expenses

Funding and expenses in this section provide for the following items to meet the objectives as defined in the business plan.

Funding Sources

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

Personnel Expenses

- Salaries and benefits for all of the support departments are budgeted within the G&A department to ensure personnel confidentiality.
- There are some headcount additions within the Legal and IT department for 2009 which are reflected in the G&A department. Personnel expenses are expected to be higher due to the need to add 1 content coordinator position for IT and 1 legal counsel position for Legal & Regulatory affairs.
- Finally, the 2009 budget assumes full staff for the full year.

Meeting Expenses

- Travel expenses are virtually unchanged from 2008's forecast to the 2009 budget.

Operating Expenses

- Operating expenses are increasing by more than \$217K. This increase is primarily attributed to the increase in service costs for support services and Texas RE's anticipated rent increase, offset by reductions in expected legal expenses incurred under the G&A department.

Legal and Regulatory

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, and regulatory matters. Legal staff also retains and oversees the work of outside counsel as needed. Legal and regulatory staff anticipates that the primary regulatory emphasis during 2009 will include NERC registration appeals, investigation oversight, settlement coordination, and enforcement proceedings under the CMEP, but staff will 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. Specific objectives include:

2009 Goals and Objectives

1. Coordinate Texas RE board information, meetings, and materials and maintain corporate bylaws and board procedures as required by the Delegation Agreement, NERC Rules, and FERC Orders.
2. Represent Texas RE in all NERC, FERC, regulatory matters, and legal proceedings.
3. Oversee prosecution of CMEP hearings of contested enforcement matters.
4. Oversee investigations to ensure accurate and complete documentation is maintained and appropriate and consistent procedures are followed.
5. Communicate and maintain effective relationships with NERC, FERC, the PUCT, and other governmental authorities.
6. Manage and oversee all Texas RE registration and enforcement action appeals.
7. Review Texas RE enforcement actions, penalties, and sanctions for consistency.
8. Participate in settlement processes and review all settlements for consistent application of the CMEP.
9. Review and provide input to NERC regarding new and modified standards, procedures, forms, and templates.

Legal and Regulatory

Funding sources and related expenses for the legal & regulatory section of the 2009 business plan are shown in the table below.

Statement of Activities					
2008 Budget & Projection, and 2009 Budget					
Legal and Regulatory					
	2008 Budget	2008 Projection	2008 Projection Variance to 2008 Budget Over(Under)	2009 Budget	2009 Budget Variance to 2008 Projection Over(Under)
Funding					
Assessments	\$ 92,050	\$ 92,050	\$ -	\$ 314,394	\$ 222,344
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 92,050	\$ 92,050	\$ -	\$ 314,394	\$ 222,344
Expenses					
Personnel Expenses					
Salaries	\$ -	\$ -	\$ -	\$ -	\$ -
Payroll Taxes	-	-	-	-	-
Benefits	-	-	-	-	-
Retirement Costs	-	-	-	-	-
Total Personnel Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Meeting Expenses					
Meetings	\$ 810	\$ 810	\$ -	\$ -	\$ (810)
Travel	2,740	4,300	1,560	8,994	4,694
Conference Calls	-	-	-	-	-
Total Meeting Expenses	\$ 3,550	\$ 5,110	\$ 1,560	\$ 8,994	\$ 3,884
Operating Expenses					
Consultants	\$ -	\$ -	\$ -	\$ -	\$ -
Contracts	-	-	-	-	-
Office Rent	-	-	-	-	-
Office Costs	500	-	(500)	2,400	2,400
Professional Services	60,000	300,000	240,000	300,000	-
Computer Purchase & Maintenance	-	-	-	3,000	3,000
Furniture & Equipment	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Contingency	28,000	-	(28,000)	-	-
Total Operating Expenses	\$ 88,500	\$ 300,000	\$ 211,500	\$ 305,400	\$ 5,400
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 92,050	\$ 305,110	\$ 213,060	\$ 314,394	\$ 9,284
Change in Assets	\$ -	\$ (213,060)	\$ (213,060)	\$ -	\$ 213,060

Salaries for all Administrative Functions have been consolidated under the G&A function to ensure personnel confidentiality.

Summary of 2008 Projection and 2009 Budgeted Funding and Expenses

Funding and expenses in this section provide for the following items to meet the objectives as defined in the business plan.

Funding Sources

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

Personnel Expenses

- Salaries and benefits for Legal and Regulatory are budget within the G&A Department to ensure personnel confidentiality.

Meeting Expenses

- Travel expenses are expected to approximately double in legal due to the addition of a legal counsel for 2009.

Operating Expenses

- Legal expenses were budgeted in 2008 under both the G&A department and the legal department. The forecast for 2008 is higher related to legal based on increased outside legal counsel expenses as well as an increase in activity related to Compliance, Registration and Certification. The 2009 budget is approximately \$5K higher due to additional legal bar related expenses, fees and dues expenses.

Information Technology

Functional Description

IT Staff will provide a broad range of information technology support to Texas RE.

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. IT Staff will perform a variety of technical and administrative tasks in the planning, development, deployment, support, and security of enterprise systems and computer applications and systems, including providing training and technical support to the users and assisting with compliance to Critical Infrastructure Protection Standards.

To ensure that tools provided to Texas RE by ERCOT ISO and vendors are well maintained, service levels remain high, and costs are controlled, IT Staff will provide vendor management and coordinate with ERCOT ISO IT Staff on day-to-day support, administration, and future requirements.

IT Staff also has the general responsibility to keep Texas RE systems up-to-date with evolving industry standards. IT Staff will work with partners, 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 Web site, Texas RE e-mail boxes and lists, e-newsletters, and Web-based training.

IT Staff will also manage the design, implementation, support, and maintenance of Texas RE data and records management tools to support the ability of Texas RE Staff and registered entities to comply with NERC standards and implement ERCOT Regional Standards; specifically, such tools include the compliance data portal and tracking tool, the Reliability Standards tracking tool, and the electronic document management system. IT Staff will also assist with the transition of Texas RE Staff's ability to receive or view necessary data in ERCOT ISO nodal systems. IT Staff will also participate in the design and development of database models, Web-enabled applications, data extraction and delivery methods, and data presentation.

2009 Goals and Objectives

IT objectives for 2009 include the following:

1. Determine long-term system needs and develop strategy.
2. Assist in determining and meeting immediate system and hardware 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.
5. Work effectively with technological partners, other regional entities, and NERC to ensure that Texas RE is in keeping with industry standards.
6. Assist in ensuring all information systems are functional and secure, and that all applications running on those systems meet business requirements for performance, availability, and security.

Information Technology

Funding sources and related expenses for the information technology section of the 2009 business plan are shown in the table below.

Statement of Activities					
2008 Budget & Projection, and 2009 Budget					
Information Technology					
	2008 Budget	2008 Projection	2008 Projection Variance to 2008 Budget Over(Under)	2009 Budget	2009 Budget Variance to 2008 Projection Over(Under)
Funding					
Assessments	\$ 11,650	\$ 11,650	\$ -	\$ 383,500	\$ 371,850
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 11,650	\$ 11,650	\$ -	\$ 383,500	\$ 371,850
Expenses					
Personnel Expenses					
Salaries	\$ -	\$ -	\$ -	\$ -	\$ -
Payroll Taxes	-	-	-	-	-
Benefits	-	-	-	-	-
Retirement Costs	-	-	-	-	-
Total Personnel Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Meeting Expenses					
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	150	-	(150)	-	-
Conference Calls	-	-	-	-	-
Total Meeting Expenses	\$ 150	\$ -	\$ (150)	\$ -	\$ -
Operating Expenses					
Consultants	\$ -	\$ -	\$ -	\$ -	\$ -
Contracts	-	-	-	-	-
Office Rent	-	-	-	-	-
Office Costs	500	-	(500)	-	-
Professional Services	-	40,000	40,000	60,000	20,000
Computer Purchase & Maintenance	-	289,501	289,501	323,500	33,999
Furniture & Equipment	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Contingency	11,000	-	(11,000)	-	-
Total Operating Expenses	\$ 11,500	\$ 329,501	\$ 318,001	\$ 383,500	\$ 53,999
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 11,650	\$ 329,501	\$ 317,851	\$ 383,500	\$ 53,999
Change in Assets	\$ -	\$ (317,851)	\$ (317,851)	\$ -	\$ 317,851

Salaries for all Administrative Functions have been consolidated under the G&A function to ensure personnel confidentiality.

Summary of 2008 Projection and 2009 Budgeted Funding and Expenses

Funding and expenses in this section provide for the following items to meet the objectives as defined in the business plan.

Funding Sources

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

Personnel Expenses

- Salaries and benefits for Legal and Regulatory are budget within the G&A Department to ensure personnel confidentiality.

Meeting Expenses

- None expected.

Operating Expenses

- Approximately \$54K higher due to the full year hosting and maintenance of the Texas RE web site.

Human Resources

Functional Description

The Human Resources function is captured in the General & Administrative expenses and is included as a component of the expenses charged to Texas RE by ERCOT ISO for support services outlined in the Memorandum of Understanding.

Finance and Accounting

Functional Description

The Finance Staff will provide a broad range of support to Texas RE personnel and department managers. Finance Staff is 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 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 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 personnel. Finance Staff are required to ensure Texas RE appropriately accounts for all Statutory and Non-Statutory expenses and revenue appropriately. This will involve generating monthly financial reports that will be communicated to the CEO and CCO, the budget managers and the Board of Directors.

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

2009 Goals and Objectives

1. Ensure that the accounting and finance functions are appropriately managed at Texas RE.
2. Keep the Chief Executive Officer/Chief Compliance Officer informed of budget, expenditure and total operational financial performance.
3. Ensure that Texas RE receives an unqualified opinion on the audit of the financial statements.
4. Continue to support NERC finance staff in coordination of quarterly and annual reporting requirements.
5. Review workflow and adjust as required to better enable Texas RE staff operational success.

Finance and Accounting

Funding sources and related expenses for the accounting and finance section of the 2009 business plan are shown in the table below.

Statement of Activities					
2008 Budget & Projection, and 2009 Budget					
Finance and Accounting					
	2008 Budget	2008 Projection	2008 Projection Variance to 2008 Budget Over(Under)	2009 Budget	2009 Budget Variance to 2008 Projection Over(Under)
Funding					
Assessments	\$ 54,360	\$ 54,360	\$ -	\$ 39,126	\$ (15,234)
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 54,360	\$ 54,360	\$ -	\$ 39,126	\$ (15,234)
Expenses					
Personnel Expenses					
Salaries	\$ -	\$ -	\$ -	\$ -	\$ -
Payroll Taxes	-	-	-	-	-
Benefits	-	-	-	-	-
Retirement Costs	-	-	-	-	-
Total Personnel Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Meeting Expenses					
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	3,860	2,500	(1,360)	2,481	(19)
Conference Calls	-	-	-	-	-
Total Meeting Expenses	\$ 3,860	\$ 2,500	\$ (1,360)	\$ 2,481	\$ (19)
Operating Expenses					
Consultants	\$ -	\$ -	\$ -	\$ -	\$ -
Contracts	-	-	-	-	-
Office Rent	-	-	-	-	-
Office Costs	500	-	(500)	-	-
Professional Services	36,000	36,728	728	36,000	(728)
Computer Purchase & Maintenance	-	-	-	-	-
Furniture & Equipment	-	-	-	-	-
Miscellaneous	-	-	-	645	645
Contingency	14,000	-	(14,000)	-	-
Total Operating Expenses	\$ 50,500	\$ 36,728	\$ (13,772)	\$ 36,645	\$ (83)
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 54,360	\$ 39,228	\$ (15,132)	\$ 39,126	\$ (102)
Change in Assets	\$ -	\$ 15,132	\$ 15,132	\$ -	\$ (15,132)

Salaries for all Administrative Functions have been consolidated under the G&A function to ensure personnel confidentiality.

Summary of 2008 Projection and 2009 Budgeted Funding and Expenses

Funding and expenses in this section provide for the following items to meet the objectives as defined in the business plan.

Funding Sources

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

Personnel Expenses

- Salaries and benefits for Legal and Regulatory are budget within the G&A Department to ensure personnel confidentiality.

Meeting Expenses

- Travel is the only expense category and is virtually unchanged from the 2008 forecast to the 2009 budget.

Operating Expenses

- Expenses are virtually unchanged between the 2008 forecast and the 2009 budget.

Section B — 2009 Budget

2008 Budget and Projection and 2009 Budget Comparisons

Table 1

Statement of Activities					
2008 Budget & Projection, and 2009 Budget					
STATUTORY					
	2008 Budget	2008 Projection	2008 Projection Variance to 2008 Budget Over(Under)	2009 Budget	2009 Budget Variance to 2008 Projection Over(Under)
Funding					
Assessments	\$ 3,226,066	\$ 3,226,066	\$ -	\$ 3,430,700	\$ 204,634
Workshops	70,000	-	(70,000)	70,000	70,000
Interest	-	92,500	92,500	-	(92,500)
Miscellaneous	-	-	-	-	-
Total Funding	\$ 3,296,066	\$ 3,318,566	\$ 22,500	\$ 3,500,700	\$ 182,134
Expenses					
Personnel Expenses					
Salaries	\$ 1,718,289	\$ 1,747,254	\$ 28,965	\$ 2,496,968	\$ 749,714
Payroll Taxes	142,617	146,388	3,771	192,152	45,763
Benefits	206,195	207,011	816	268,261	61,250
Retirement Costs	201,040	206,849	5,809	355,497	148,648
Total Personnel Expenses	\$ 2,268,141	\$ 2,307,502	\$ 39,361	\$ 3,312,877	\$ 1,005,375
Meeting Expenses					
Meetings	\$ 73,240	\$ 3,240	\$ (70,000)	\$ 105,000	\$ 101,760
Travel	93,235	86,720	(6,515)	107,470	20,750
Conference Calls	1,000	-	(1,000)	-	-
Total Meeting Expenses	\$ 167,475	\$ 89,960	\$ (77,515)	\$ 212,470	\$ 122,510
Operating Expenses					
Consultants	\$ -	\$ -	\$ -	\$ 6,000	\$ 6,000
Contracts	89,000	203,585	114,585	280,654	77,069
Office Rent	80,000	165,000	85,000	517,550	352,550
Office Costs	17,450	10,788	(6,662)	18,280	7,492
Professional Services	256,000	688,428	432,428	426,000	(262,428)
Computer Purchase & Maint.	123,000	439,001	316,001	527,032	88,031
Furniture & Equipment	-	-	-	-	-
Miscellaneous	-	-	-	11,160	11,160
Contingency	295,000	-	(295,000)	-	-
Total Operating Expenses	\$ 860,450	\$ 1,506,802	\$ 646,352	\$ 1,786,676	\$ 279,874
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ 855,000	\$ 855,000
Total Expenses	\$ 3,296,066	\$ 3,904,264	\$ 608,198	\$ 6,167,024	\$ 2,262,760
Change in Assets	\$ -	\$ (585,698)	\$ (585,698)	\$ (2,666,324)	\$ (2,080,626)

Personnel Analysis

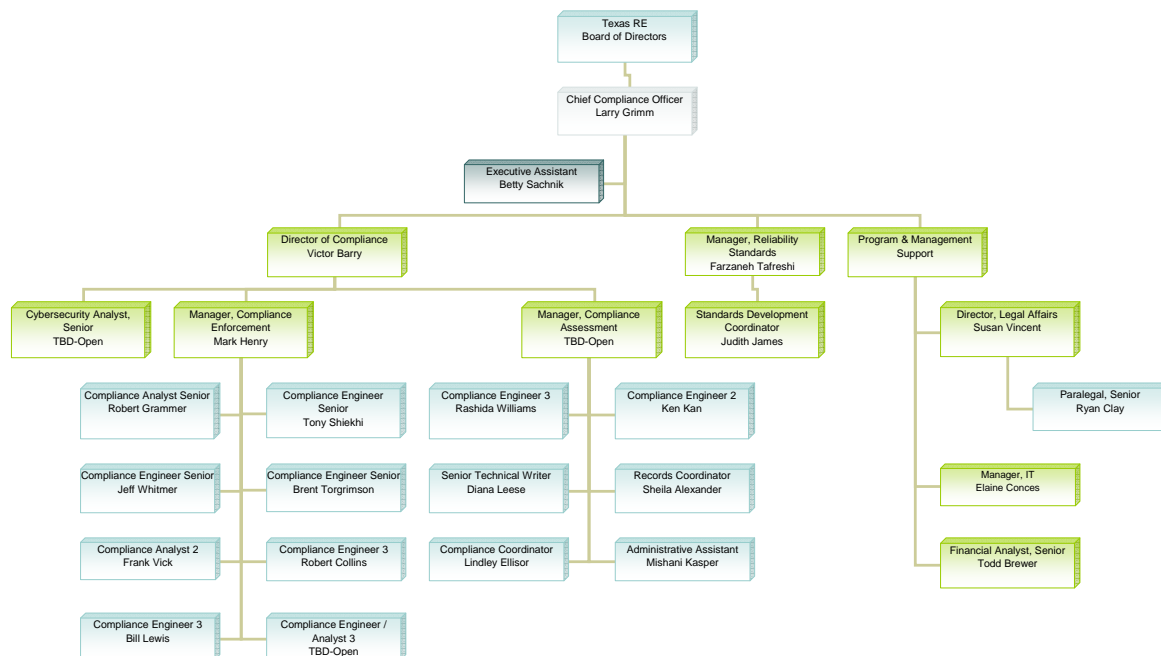
Table 2

Total FTE's by Program Area	Budget 2008	Projection 2008	Budget 2009	Change from Projection	Draft 1 2009 Budget
STATUTORY					
Operational Programs					
Reliability Standards	2.00	1.70	1.70	0.00	1.7
Compliance and Organization Registration and Certification	6.40	12.40	14.15	1.75	13.7
Reliability Readiness Audit and Improvement	0.40	0.30	0.00	-0.30	0.5
Training and Education	0.38	0.40	0.60	0.20	0.6
Reliability Assessment and Performance Analysis	5.25	1.35	2.20	0.80	2.2
Situational Awareness and Infrastructure Security	0.40	0.60	1.50	0.90	1.5
Total FTEs Operational Programs	14.83	16.75	20.15	3.35	20.2
Administrative Programs					
General & Administrative	1.50	1.35	1.70	0.35	6.8
Information Technology	0.75	0.70	1.70	1.00	0.0
Legal and Regulatory	1.50	1.25	2.55	1.30	0.0
Accounting	0.75	0.70	0.85	0.15	0.0
Total FTEs Administrative Programs	4.50	4.00	6.80	2.80	6.8
Total FTEs	19.33	20.75	26.95	6.15	26.9

2008 Organizational Chart

Table 3

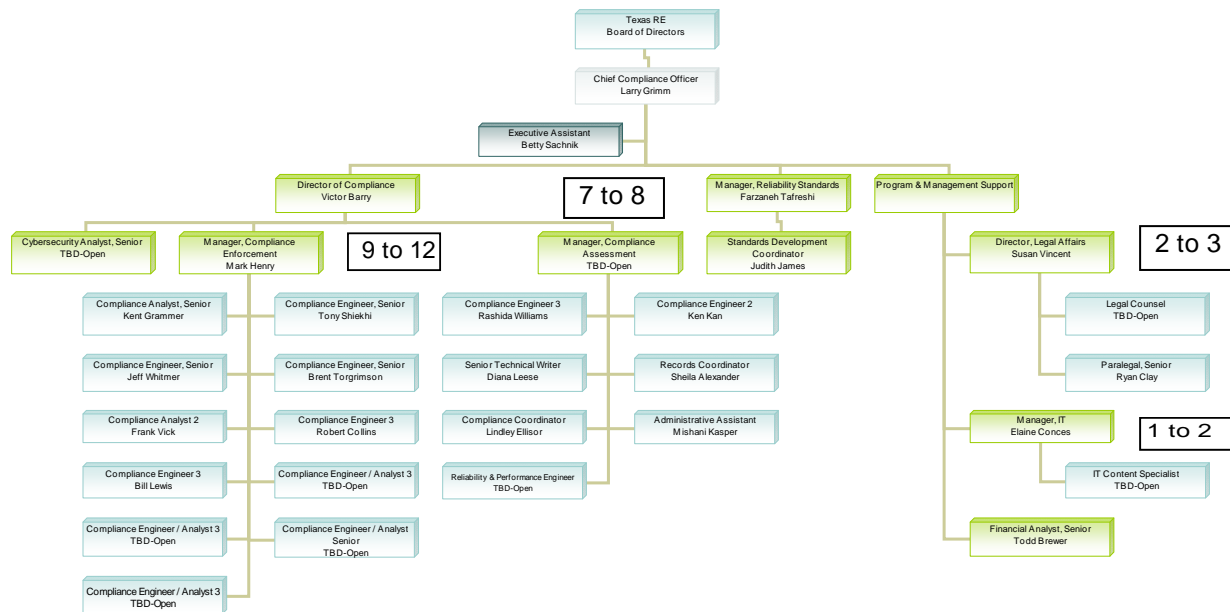
Salaries and benefits for Legal and Regulatory are budget within the G&A Department to ensure personnel confidentiality.



2009 Organizational Chart

Table 4

Salaries and benefits for Legal and Regulatory are budget within the G&A Department to ensure personnel confidentiality.



Reserve Balance

Table 5

Working Capital Reserve Analysis 2008-2009	
STATUTORY	
Beginning Working Capital Reserve (Deficit), December 31, 2007	3,252,021
Plus: 2008 ERO Funding (from LSEs or designees)	3,226,066
Plus: 2008 Other Funding Sources (Cash basis)	92,500
Less: 2008 Projected Expenses & Capital Expenditures (Cash basis)	<u>(3,904,264)</u>
Projected Working Capital Reserve (Deficit), December 31, 2008	<u>2,666,323</u>
Desired Working Capital Reserve, December 31, 2009 ¹	855,000
Less: Projected Working Capital Balance December 31, 2008	2,666,323
Increase/(Decrease) in Assessments to Achieve Desired Working Capital Reserve	<u>(1,811,323)</u>
2009 Assessment for Expenses and Capital Expenditures, Excluding Working Capital Reserve (Cash basis)	5,312,024
Less: Other Sources of Income	(70,000)
Adjustment to Achieve Desired Working Capital Balance	<u>(1,811,323)</u>
2009 Assessment	<u>3,430,700</u>

¹ On June 17, 2008 Texas RE's Board of Directors approved the budget reflecting a desired 60-day cash on hand balance to be reserved for Texas RE.

Regional Entity Assessment Analysis

Breakdown by Statement of Activity Sections

The following detailed schedules are in support of Table 1, page 45, of the 2009 Texas RE Business Plan and Budget. All significant variances have been disclosed by program area in the preceding pages.

Supplemental Funding

Table B-1

Outside Funding Breakdown By Program	Budget 2008	Projection 2008	Budget 2009	Variance	Variance %
Training and Education					
Systems Operators Training Seminar	\$ 70,000	\$ -	\$ 70,000	\$ 70,000	
Total	\$ 70,000	\$ -	\$ 70,000	\$ 70,000	
General and Administrative					
Interest Income	\$ -	\$ 92,500	\$ -	\$ (92,500)	-100.00%
Total	\$ -	\$ 92,500	\$ -	\$ (92,500)	-100.00%
Total Outside Funding	\$ 70,000	\$ 92,500	\$ 70,000	\$ (22,500)	-24.32%

Personnel Expenses

Table B-2

Personnel Expenses	Budget 2008	Projection 2008	Budget 2009	Variance	Variance %
Salaries					
Salary	\$ 1,718,289	\$ 1,747,254	\$ 2,496,968	\$ 749,714	42.91%
Employment Agency Fees	-	-	-	-	
Temporary Office Services	-	-	-	-	
Total Salaries	\$ 1,718,289	\$ 1,747,254	\$ 2,496,968	\$ 749,714	42.91%
Payroll Taxes					
FICA	\$ 103,892	\$ 105,677	\$ 149,398	\$ 43,721	41.4%
Medicare	23,261	24,986	34,347	9,361	37.5%
SUI	13,746	13,978	6,005	(7,973)	-57.0%
FUI	1,718	1,747	2,402	655	37.5%
Total Payroll Taxes	\$ 142,617	\$ 146,388	\$ 192,152	\$ 45,763	31.3%
Benefits					
Workers Compensation	\$ 27,493	\$ 27,956	\$ 38,430	\$ 10,474	37.5%
Medical Insurance	171,742	172,095	217,290	45,196	26.3%
Life-LTD Insurance	1,200	1,200	1,440	240	20.0%
Reimbursable Resource	5,760	5,760	11,100	5,340	92.7%
Total Benefits	\$ 206,195	\$ 207,011	\$ 268,261	\$ 61,250	29.6%
Retirement					
Profit Sharing Plan / SERP	\$ 154,646	\$ 157,253	\$ 249,697	\$ 92,444	58.8%
Savings Plan	46,394	49,596	105,800	56,204	113.3%
Total Retirement	\$ 201,040	\$ 206,849	\$ 355,497	\$ 148,648	71.9%
Total Personnel Costs	\$ 2,268,141	\$ 2,307,502	\$ 3,312,877	\$ 1,005,375	43.6%

Meeting Expenses

Table B-3

Meeting Expenses

Meeting Expenses by Business Plan Category	Budget 2008	Projection 2008	Budget 2009	Variance	Variance %
Reliability Standards	\$ 810	\$ 810	\$ -	\$ (810)	-100.00%
Compliance and Organization Registration and Certification	810	810	-	(810)	-100.00%
Reliability Assessment and Performance Analysis	810	810	-	(810)	-100.00%
Training and Education	\$ 70,000	\$ -	\$ 105,000	\$ 105,000	
Legal and Regulatory	810	810	-	(810)	-100.00%
Total Meeting Expenses	\$ 73,240	\$ 3,240	\$ 105,000	\$ 101,760	3140.74%

Travel Expenses by Business Plan Category	Budget 2008	Projection 2008	Budget 2009	Variance	Variance %
Reliability Standards	\$ 8,500	\$ 3,500	\$ 4,344	\$ 844	24.11%
Compliance and Organization Registration and Certification	46,205	60,000	66,187	6,187	10.31%
Reliability Readiness Audit and Improvement	10,620	500	7,012	6,512	1302.40%
Reliability Assessment and Performance Analysis	4,340	1,800	3,117	1,317	73.17%
Training and Education	10,140	1,400	1,446	46	3.29%
Situational Awareness and Infrastructure Security	200	600	1,069	469	78.17%
General and Administrative	6,480	12,120	12,820	700	5.78%
Legal and Regulatory	2,740	4,300	8,994	4,694	109.16%
Information Technology	150	-	-	-	
Accounting and Finance	3,860	2,500	2,481	(19)	-0.76%
Total Travel Expenses	\$ 93,235	\$ 86,720	\$ 107,470	\$ 20,750	23.93%

Conference Call Expenses by Business Plan Category	Budget 2008	Projection 2008	Budget 2009	Variance	Variance %
General and Administrative	\$ 1,000	\$ -	\$ -	\$ -	
Total Conference Calls	\$ 1,000	\$ -	\$ -	\$ -	
Total Meeting Expenses	\$ 167,475	\$ 89,960	\$ 212,470	\$ 122,510	136.18%

Section B — 2009 Regional Entity Budget

Operating Expenses

Table B-4

Consultants	Budget 2008	Projection 2008	Budget 2009	Variance	Variance %
Recruitment	\$ -	\$ -	\$ 6,000	\$ 6,000	
Consultants Total	\$ -	\$ -	\$ 6,000	\$ 6,000	

Table B-5

Contracts	Budget 2008	Projection 2008	Budget 2009	Variance	Variance %
Contracts - Software					
Support Department Allocation	\$ 89,000	\$ 203,585	\$ 280,654	\$ 77,069	37.86%
Contracts - Software Total	\$ 89,000	\$ 203,585	\$ 280,654	\$ 77,069	37.86%

Table B-6

Office Rent	Budget 2008	Projection 2008	Budget 2009	Variance	Variance %
Office Rent & Facilities Support	\$ 80,000	\$ 165,000	\$ 517,550	\$ 352,550	213.67%
Total Office Rent	\$ 80,000	\$ 165,000	\$ 517,550	\$ 352,550	213.67%

Table B-7

Office Costs	Budget 2008	Projection 2008	Budget 2009	Variance	Variance %
Office Supplies	\$ 12,950	\$ 7,528	\$ 8,400	\$ 872	11.58%
Dues	500	360	5,080	\$ 4,720	1311.11%
Postage	1,000	200	1,200	\$ 1,000	500.00%
Express Shipping	1,000	900	1,200	\$ 300	33.33%
Reports - Graphics	1,000	600	1,200	\$ 600	100.00%
Stationary Forms	1,000	1,200	1,200	\$ -	0.00%
Total Office Costs	\$ 17,450	\$ 10,788	\$ 18,280	\$ 7,492	69.45%

Table B-8

Professional Services	Budget 2008	Projection 2008	Budget 2009	Variance	Variance %
Outside Legal	\$ 220,000	\$ 300,000	\$ 300,000	\$ -	0.00%
Accounting & Auditing Fees	36,000	36,728	36,000	\$ (728)	-1.98%
Other Consulting Fees	-	131,700	30,000	\$ (101,700)	-77.22%
Website Hosting and Maintenance	-	40,000	60,000	\$ 20,000	50.00%
Total Services	\$ 256,000	\$ 508,428	\$ 426,000	\$ (82,428)	-16.21%

Section B — 2009 Regional Entity Budget

Table B-9

Computer	Budget 2008	Projection 2008	Budget 2009	Variance	Variance %
Software	\$ -		\$ 3,932	\$ 3,932	
IT Administration	\$ 123,000	\$ 150,195	\$ 200,400	\$ 50,205	33.43%
Computer Projects	\$ -	\$ 288,806	\$ 322,700		
Total Computer	\$ 123,000	\$ 439,001	\$ 527,032	\$ 54,137	20.05%

Table B-10

Miscellaneous	Budget 2008	Projection 2008	Budget 2009	Variance	Variance %
Employee Seminars & Training	\$ -	\$ -	\$ 11,160	\$ 11,160	
Total Computer	\$ -	\$ -	\$ 11,160	\$ 11,160	

Table B-11

Other Non-Operating Expenses	Budget 2008	Projection 2008	Budget 2009	Variance	Variance %
Cash/Contingency Reserve	\$ -	\$ -	\$ 855,000	\$ 855,000	
Total Non-Operating Expenses	\$ -	\$ -	\$ 855,000	\$ 855,000	

Section C — 2009 RE Non-Statutory Business Plan and Budget

Non Statutory (in whole dollars)			
	2008 Budget	2008 Projection	2009 Budget
Total FTEs	5.67	4.50	5.05
Total Direct Expenses	848,782	775,885	871,997
Total Indirect Expenses			
Total Expenses	848,782	775,885	871,997

Non-Statutory Functional Scope

In addition to its statutory functions, Texas RE monitors, audits, assesses, investigates, and reports on compliance with the reliability-related ERCOT Protocols, for the Public Utility Commission of Texas (PUCT), which is needed to safely and reliably operate the electric transmission system. The ERCOT Protocols contain the market rules for planning and operating reliable interconnected Bulk Electric System in the ERCOT Region. To ensure that the reliability of the interconnected Bulk Electric System is maintained, all ERCOT Region market participants involved in planning, operating, owning, or using this system must understand and comply with these requirements. The PUCT makes all final decisions regarding violations of Protocols and prosecutes any Protocol violations that result in enforcement actions. As part of its Non-statutory activities, Texas RE also monitors the Protocol revision process, and provides comments regarding reliability-related Protocol revisions.

In accordance with P.U.C. SUBST. R. 25.503, and the PUCT-approved “ERCOT Compliance Process“, Texas RE monitors material occurrences of non-compliance with ERCOT Protocols, which includes occurrences that have the potential to impede ERCOT ISO operations, or represent a risk to system reliability. In accordance with the approved ERCOT ISO Compliance Process, Texas RE:

- A. Maintains a record of all material occurrences of non-compliance with ERCOT Protocols and tracks recurrence of such material occurrences of non-compliance.
- B. Obtains needed information from market participants in order to review and assess system disturbances and potential material occurrences of non-compliance with the ERCOT Protocols.
- C. Promptly provides information to and responds to questions from market participants to allow the market participant to understand and respond to alleged material occurrences of non-compliance with ERCOT Protocols.
- D. Maintains a record of the resolution of such material occurrences of non-compliance and of corrective actions taken by the market participant in each instance.
- E. Informs the PUCT staff immediately of any material occurrence of non-compliance.
- F. Informs the PUCT staff of the resolution of any material occurrence of non-compliance.

Texas RE staff use daily electronic time tracking to document the time spent performing Non-statutory activities. In addition, Texas RE G&A expenses are proportionately allocated to the Non-statutory budget, based upon the time spent performing Non-statutory activities.

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.

Major 2009 Cost Impacts

Funding Sources

- Funding is received only through ERCOT ISO to pay for these expenses.

Personnel Expenses

- Personnel expenses are less than the 2008 forecast. Texas RE is recognizing approximately \$14K less in personnel expenses due to a lower percentage of work performed for non-statutory purposes.

Meeting Expenses

- No significant change expected for 2009.

Operating Expenses

- Expenses are expected to be higher in 2009 due to the space requirements of Texas RE. The rent expense for 2009 is anticipated to be significantly higher due to the need to procure space outside of Texas REs current location.

2008 Budget and Projection and 2009 Budget Comparisons

Table 1

Statement of Activities					
2008 Budget & Projection, and 2009 Budget					
NON-STATUTORY					
	2008 Budget	2008 Projection	2008 Projection Variance to 2008 Budget Over(Under)	2009 Budget	2009 Budget Variance to 2008 Projection Over(Under)
Funding					
Revenue	\$ 848,782	\$ 775,885	\$ (72,897)	\$ 871,997	\$ 96,112
Total Funding	\$ 848,782	\$ 775,885	\$ (72,897)	\$ 871,997	\$ 96,112
Expenses					
Personnel Expenses					
Salaries	\$ 524,494	\$ 457,692	\$ (66,802)	\$ 448,080	\$ (9,612)
Payroll Taxes	43,533	36,615	(6,918)	35,846	(769)
Benefits	62,939	48,057	(14,882)	45,942	(2,115)
Retirement Costs	61,366	66,365	4,999	64,972	(1,394)
Total Personnel Expenses	\$ 692,332	\$ 608,730	\$ (83,602)	\$ 594,840	\$ (13,890)
Meeting Expenses					
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	3,900	4,172	272	2,181	(1,991)
Conference Calls	-	-	-	-	-
Total Meeting Expenses	\$ 3,900	\$ 4,172	\$ 272	\$ 2,181	\$ (1,991)
Operating Expenses					
Consultants	\$ -	\$ -	\$ -	\$ -	\$ -
Contracts	-	-	-	-	-
Office Rent	68,000	65,044	(2,956)	118,200	53,156
Office Costs	2,550	804	(1,746)	480	(324)
Professional Services	82,000	70,630	(11,370)	89,900	19,270
Computer Purchase & Maint.	-	26,505	26,505	36,396	9,891
Furniture & Equipment	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Contingency	-	-	-	30,000	30,000
Total Operating Expenses	\$ 152,550	\$ 162,983	\$ 10,433	\$ 274,976	\$ 111,993
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 848,782	\$ 775,885	\$ (72,897)	\$ 871,997	\$ 96,112
Change in Assets	\$ -	\$ -	\$ -	\$ -	\$ -

Personnel Analysis

Table 2

Total FTE's by Program Area	Budget 2008	Projection 2008	Budget 2009	Change from Projection
NON-STATUTORY				
Operational Programs				
Protocol	3.17	3.10	3.85	0.75
Total FTEs Operational Programs	3.17	3.10	3.85	0.75
Administrative Programs				
General & Administrative	2.50	1.40	1.20	-0.20
Total FTEs Administrative Programs	2.50	1.40	1.20	-0.20
Total FTEs	5.67	4.50	5.05	0.55

Texas RE 2009 STATEMENT OF ACTIVITIES

Statement of Activities 2008 Budget	Total	Statutory Total	Non-Statutory Total	Functions in Delegation Agreement										Non-Statutory Functions	
				Statutory Total	Reliability Standards (Section 300)	Compliance and Registration and Certification (Section 400 & 500)	Reliability Readiness Audit and Improvement (Section 700)	Reliability Assessment and Performance Analysis (Section 800)	Training and Education (Section 900)	Situational Awareness and Infrastructure Security (Section 1000)	General and Administrative	Legal and Regulatory	Information Technology	Accounting and Finance	Non-Statutory Total
Funding															
ERO Assessments	3,430,700	3,430,700	-	3,430,700	176,491	1,628,935	-	365,180	106,415	159,129	257,531	314,394	383,500	39,126	-
Membership Dues/Non-Statutory Fun	871,997	-	871,997	-	-	-	-	-	-	-	-	-	-	-	871,997
Testing Fees	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Services & Software	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Workshops	70,000	70,000	-	70,000	-	-	-	-	70,000	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Funding	4,372,697	3,500,700	871,997	3,500,700	176,491	1,628,935	-	365,180	159,129	159,129	257,531	314,394	383,500	39,126	871,997
Expenses															
Personnel Expenses															
Salaries	2,945,048	2,496,968	448,080	2,496,968	127,238	1,164,106	-	270,100	52,608	118,842	764,074	-	-	-	448,080
Payroll Taxes	235,604	199,757	35,846	199,757	10,179	93,128	-	21,608	4,209	9,507	61,126	-	-	-	35,846
Benefits	305,571	259,628	45,942	259,628	14,320	134,510	-	31,191	5,524	12,479	61,605	-	-	-	45,942
Retirement Costs	421,495	356,523	64,972	356,523	18,450	163,258	-	39,165	7,628	17,232	110,791	-	-	-	64,972
Total Personnel Expenses	3,907,718	3,312,878	594,840	3,312,878	170,187	1,555,003	-	362,063	69,969	158,060	997,596	-	-	-	594,840
Meeting Expenses															
Meetings	105,000	105,000	-	105,000	-	-	-	-	105,000	-	-	-	-	-	-
Travel	109,651	107,470	2,181	107,470	4,344	73,199	-	3,117	1,446	1,069	12,820	8,994	-	2,481	2,181
Conference Calls	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Meeting Expenses	214,651	212,470	2,181	212,470	4,344	73,199	-	3,117	106,446	1,069	12,820	8,994	-	2,481	2,181
Operating Expenses															
Consultants	6,000	6,000	-	6,000	-	-	-	-	-	-	6,000	-	-	-	-
Contracts	280,654	280,654	-	280,654	-	-	-	-	-	-	280,654	-	-	-	-
Office Rent	635,750	517,550	118,200	517,550	-	-	-	-	-	-	517,550	-	-	-	118,200
Office Costs	18,760	18,280	480	18,280	1,960	600	-	-	-	-	13,320	2,400	-	-	480
Professional Services	515,900	426,000	89,900	426,000	-	-	-	-	-	-	30,000	300,000	60,000	36,000	89,900
Computer Purchase & Maint.	563,429	527,032	36,396	527,032	-	132	-	-	-	-	200,400	3,000	323,500	-	36,396
Furniture and Equipment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Miscellaneous	11,160	11,160	-	11,160	-	-	-	-	-	-	10,515	-	-	645	-
Contingency	30,000	-	30,000	-	-	-	-	-	-	-	-	-	-	-	30,000
Total Operating Expenses	2,061,653	1,786,676	274,976	1,786,676	1,960	732	-	-	-	-	1,058,439	305,400	383,500	36,645	274,976
Other Non-Operating Expenses	855,000	855,000	-	855,000	-	-	-	-	-	-	855,000	-	-	-	-
Total Expenses	7,039,021	6,167,024	871,997	6,167,024	176,491	1,628,935	-	365,180	176,415	159,129	2,923,855	314,394	383,500	39,126	871,997
Change in Assets	(2,666,324)	(2,666,324)	-	(2,666,324)	-	-	-	-	-	-	(2,666,324)	-	-	-	-
Allocation of Overhead															
Direct Costs	2,927,124	2,506,149	420,974	2,506,149	176,491	1,628,935	-	365,180	176,415	159,129	-	-	-	-	420,974
Indirect Costs Allocation	4,111,898	3,660,875	451,023	3,660,875	308,524	2,578,245	-	399,266	106,397	268,443	-	-	-	-	451,023
	7,039,021	6,167,024	871,997	6,167,024	485,015	4,207,180	-	764,446	282,812	427,572	-	-	-	-	871,997
FTE's	32.00	26.95	5.05	26.95	1.70	14.15	-	2.20	0.60	1.50	1.70	2.55	1.70	0.85	5.05



RECEIVED JUN 13 2008

**MEMORANDUM OF UNDERSTANDING BETWEEN
ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.
AND TEXAS REGIONAL ENTITY**

Effective: January 1, 2008

I. Introduction

Electric Reliability Council of Texas, Inc. (ERCOT) and Texas Regional Entity (Texas RE), an independent division of ERCOT, hereby enter into this Memorandum of Understanding (MOU) to set forth the agreed terms and conditions relating to the provision of administrative support services conducted by ERCOT staff for Texas RE.

To provide beneficial context and help comprehension, the elements of the MOU are grouped into three categories:

1. Texas RE Organization and Operations
2. Significant Accounting Policies
3. Detailed Transaction Accounting

II. Texas RE Organization and Operations

A. Texas RE performs two functions:

1. Statutory functions. Oversees development of and enforces compliance with North American Electric Reliability Corporation (NERC) Reliability Standards in the ERCOT Region (under federal law – EPCRA – also referred to as “Delegated Activities”), and
2. Non-statutory functions. Monitors, assesses, investigates, and reports on compliance with the ERCOT Protocols and Operating Guides (under Texas state law – Public Utility Regulatory Act (PURA) - also referred to as “PURA Compliance”).

B. Texas RE is an independent division of ERCOT, and Texas RE staff operates independently of ERCOT staff. Significant steps have been taken to clarify and demonstrate Texas RE’s independence from ERCOT, including the following:

1. The corporate Bylaws specify the independence and governance structure of the Texas RE division.
2. Texas RE has executed an Amended and Restated Delegation Agreement with NERC, which is the Electric Reliability Organization (ERO) certified by the Federal Energy Regulatory Commission (FERC).
3. The Delegation Agreement requires Texas RE to perform Statutory functions and authorizes Texas RE to perform Non-statutory functions.



4. The Delegation Agreement requires Texas RE to prepare an annual Business Plan and Budget which is separate from the annual budget prepared by ERCOT.
 5. Texas RE staff members must sign a Texas RE Ethics Agreement, agreeing to comply with ERCOT's code of conduct and conflict of interest, and confidentiality standards, and with the NERC Rules of Procedure.
 6. Texas RE staff members are technically ERCOT employees but report to the Texas RE chief executive officer and Chief Compliance Officer (CCO), who reports administratively to the Texas RE Board of Directors. Texas RE staff members do not report to or through the ERCOT CEO or any other ERCOT officers.
 7. Texas RE staff occupies a separate secured area from ERCOT staff, which is currently located in ERCOT's Austin Met Center facility.
 8. Texas RE staff possesses discretely formatted physical security access badges and have electronic access to a separate secure computer network drive.
 9. Administrative activity of Texas RE is overseen by the Texas RE Board of Directors, which conducts all meetings separately from the ERCOT Board and committee meetings.
 10. Texas RE and ERCOT will attempt to resolve any concerns or disputes through cooperation and then via escalation within their respective organizations. Any remaining disputes or disagreements will be presented to the Boards of Directors or the appropriate Board committee for resolution.
 11. Texas RE has hired an independent attorney (Director, Legal Affairs who reports to the CCO) and has retained independent outside legal counsel not associated with ERCOT.
 12. A separate filing system has been established for Texas RE invoices and accounting records.
- C. For administrative ease and in the interest of responsible cost control, ERCOT and Texas RE have agreed that Texas RE personnel will adhere to ERCOT policies, standards, and procedures (unless Texas RE has a specific applicable separate policy, standard or procedure). Both organizations have consistent codes of conduct, confidentiality, and conflicts standards.

III. Significant Accounting Policies

- A. Texas RE financial statements are prepared based on GAAP.
- B. The characteristics of Texas RE's transactions and relationship with NERC do necessitate regulatory accounting (FAS 71).
- C. The characteristics of Texas RE's transactions do not necessitate utilization of Other Comprehensive Basis of Accounting (OCBOA).



- D. Activity of Texas RE is recorded using ERCOT's standardized chart of accounts. However, the standard chart of accounts is cross referenced to the NERC System of Accounts (NSOA) (Exhibit 5: NERC System of Accounts). In addition, all Texas RE transactions are coded to one of two functional categories: Rules of Procedure (Statutory activity) or Other (Non-statutory activity).
- E. All Texas RE activity is recorded to one of a series of organizational departments deemed necessary by Texas RE. Texas RE currently has the following departments: Compliance Enforcement, Compliance Assessment, Standards Development, Finance, Information Technology, and Legal and Regulatory Affairs.
- F. Regarding delegated signature authority, Texas RE personnel generally will have signature authority consistent with provisions of ERCOT's Delegated Signature Authority Corporate Standard. More specifically, the Texas RE CCO has the same signature authority as ERCOT's CEO; Texas RE's Director, Legal Affairs will approve the CCO's time and requests for reimbursement of business expenses; and other Texas RE personnel will have signature authority based upon their employment grade.

IV. **Detailed Transaction Accounting**

- A. Accounting for balance sheet transactions.
 - 1. Cash.
 - a. Texas RE cash payments and cash receipts will be managed by ERCOT treasury personnel as a part of ERCOT's comprehensive cash management program.
 - b. Texas RE cash payments and cash receipts will be accounted for and tracked discretely from other ERCOT transactions.
 - 2. Accounts Receivable.
 - a. At the beginning of each calendar quarter, it is expected Texas RE will have a receivable from ERO equal to 25% of Texas RE's annual budget as approved by ERO and by FERC as a component of ERO's annual budget.
 - b. Texas RE may also have intermittent receivables relating to penalties and special assessments against registered entities.
 - 3. Fixed Assets.
 - a. Texas RE is not expected to have assets; however, on occasion it may be necessary for Texas RE to acquire or construct assets.
 - b. Computers and related hardware are assumed provided by ERCOT's Information Technology division and covered by allocation of information technology costs to Texas RE (discussed later in this MOU).



- c. Furniture, fixtures, tools, and equipment are assumed provided by ERCOT's facilities staff and the cost of usage by Texas RE personnel covered by a "Facilities Services Cost Allocation" or "Information Technology Service Cost Allocation" (discussed later in this MOU).

4. Accounts Payable and Accrued Liabilities.

- a. Texas RE vendor invoices and payments are processed by ERCOT's Accounting division.
- b. Texas RE vendor invoices are accounted for discretely as Texas RE transactions.
- c. Texas RE's account payable liability will be determined based on the discrete account coding distribution used to identify Texas RE transactions.

5. Debt.

- a. Texas RE is not expected to have debt borrowing.
- b. It is unlikely (due to the cash reserves maintained by Texas RE), but on occasion, Texas RE may require short-term borrowing for working capital and liquidity purposes. In such instances, it is assumed Texas RE will acquire needed funding from ERCOT. The transactions will be discretely accounted for and will clearly document a "due to ERCOT" liability on Texas RE financial schedules.

B. Accounting for Income Statement Transactions.

1. Revenue.

- a. Texas RE is expected to have three possible revenue sources:
 - i. Quarterly funding from the ERO, pursuant to the Delegation Agreement
 - ii. Penalty assessments
 - iii. Special assessments
- b. Texas RE is not a party to transactions relating to ERCOT's billing, collection, and processing of the ERO fee (assessed as \$0.0169 per MWh in 2007 in the ERCOT Region).

2. Salaries and Related Benefits.

- a. Texas RE personnel are employees of ERCOT and receive the same benefits as those made available to all ERCOT employees.
- b. Texas RE personnel are assigned to one of the departments established for the Texas RE division.



- c. Texas RE personnel will track time as Statutory or Non-statutory, as appropriate, to enable correct budgetary allocation under the Delegation Agreement.
 - d. Salary and employee benefit expenses will be recorded based on detailed time tracking information submitted by Texas RE employees and approved by Texas RE management.
3. Facility and Equipment Cost.
- a. Most costs in this category will be allocated to Texas RE following the Facilities Service Cost Allocation (discussed later in this MOU).
 - b. If conference space required for planned Texas RE meetings is not available on ERCOT premises, the meetings will be arranged to be conducted at an offsite conference room facility acceptable to Texas RE personnel. The full cost of such meetings scheduled at third party operated conference facilities will be charged to Texas RE.
 - c. Conference space at ERCOT premises will be scheduled on a first come-first served basis. Texas RE will not be given preferential status when scheduling conference rooms and neither will Texas RE be at a disadvantage, relative to other employees of ERCOT, when attempting to schedule conference rooms in ERCOT facilities.
 - d. Other facility and equipment costs not covered by the Facilities Service Cost Allocation will be evaluated and accounted for on a transaction-by-transaction basis.
4. Consulting and Contractor Fees.
- a. Texas RE will recognize contractor and consultant expenses based on purchase order and contract agreements Texas RE personnel authorize and execute.
5. Outside Legal Fees.
- a. Texas RE will recognize outside legal expenses based on contract agreements and invoices Texas RE personnel execute and authorize.
6. External Audit.
- a. Texas RE will be assessed the full incremental cost charged to ERCOT by ERCOT's independent audit firm for conducting audit testing and providing an audit opinion on Texas RE transactions, financial reports filed with NERC or FERC, or Texas RE financial statements.
7. Administrative and Other.



- a. Texas RE will recognize administrative and other costs as authorized and approved by authorized Texas RE personnel.
8. Interest.
- a. Texas RE will be credited with interest income based on Texas RE's average monthly cash balance and ERCOT's actual average monthly interest rate for the total of all ERCOT cash deposits.
9. Insurance.
- a. Texas RE will be assessed an allocated share of ERCOT insurance expense as a component of the Treasury and Credit (discussed later in this MOU).
10. Employee Expense Reimbursement.
- a. Texas RE will recognize employee business reimbursement expenses as they are incurred by Texas RE employees and approved for payment by Texas RE managers.
 - b. Expense reimbursement requests submitted by the Texas RE CCO will be approved by Texas RE's Director of Legal Affairs.
 - c. Texas RE personnel will follow the ERCOT Business Expense Reimbursement Corporate Standard.
11. Board of Director Fees.
- a. Unless the Board determines otherwise:
 - i. Texas RE will be assessed one-fourth of the annual retainer paid to ERCOT's unaffiliated Directors.
 - ii. Texas RE will be assessed one-fourth of reimbursable business expenses submitted by Board members.
 - iii. Texas RE will be assessed the applicable Texas RE Board and/or Committee Meeting fee (or Special Texas RE Board or Committee Meeting fee) for any such meeting; provided, however, that if the Board or Committee also meets on the same day for an ERCOT Board or Committee meeting, Texas RE will be assessed only one-fourth of such fee.
12. Support Department Allocations.
- a. Treasury and Credit
 - i. ERCOT's Treasury and Credit personnel provide a variety of services benefiting Texas RE including providing liquidity, cash management,



check signing, financial wire processing, and risk management services.

- ii. The cost allocation for the services will be \$72,000 per year (\$6,000 per month).
- iii. See Exhibit 1 for additional background information regarding the Treasury and Credit allocation.

b. Human Resources

- i. ERCOT's Human Resource personnel provide a variety of services benefiting Texas RE including recruitment and hiring, performance management, employee benefit administration, and employee training.
- ii. The cost allocation for base Human Resources services will be \$113 per employee per month.
 - (1) Assuming Texas RE maintains 25 employees each month in 2008, the annual base allocation to Texas RE would total approximately \$33,900.
 - (2) Assuming Texas RE maintains 30 employees each month in 2009, the annual base allocation to Texas RE would total approximately \$40,680.
- iii. Texas RE will also be allocated a recruiting charge for each new Texas RE staff member recruited by Human Resources staff or contractors. The charge allocated will be \$7,500 for each full-time position and \$3,750 for each intern position recruited by Human Resources. Texas RE management may elect to use an independent firm to recruit certain Texas RE positions. Texas RE will not be allocated a recruiting charge for positions for which ERCOT Human Resources staff is not involved in the recruiting process.
- iv. See Exhibit 2 for additional background information regarding the Human Resources allocation.

c. Procurement, Contract Negotiation, Administration and Strategic Sourcing

- i. ERCOT's procurement personnel provide a variety of services benefiting Texas RE including strategic sourcing of goods and services, vendor management, and contract negotiation and administration services.
- ii. The cost allocation for the services will be \$44 per month per contract administered, \$512 per month per purchase order issued following a request for proposal, and \$20 per month per purchase order not following a request for proposal.



- iii. See Exhibit 3 for additional background information regarding the procurement, contract administration, and strategic sourcing allocation.
- d. Accounting, Budget, Financial Analysis, and Payroll (ERCOT Department 114).
 - i. ERCOT's accounting, budget, and payroll personnel provide a variety of services benefiting Texas RE including financial statement preparation, regular and ad-hoc financial analyses, periodic and ad-hoc regulatory (federal and state) filing preparation, budget coordination and preparation, participation in ERO sponsored financial and budget meetings, payroll administration and processing, time tracking monitoring and reporting, vendor payments, billing and accounts receivable transaction processing, reimbursement of Texas RE business expenses incurred by Texas RE staff.
 - ii. The cost allocation for the services will be \$48,000 per year (\$4,000 per month).
 - iii. During 2008, ERCOT's Controller, Accounting Manager, Accounting Supervisor, and Budget Manager are expected to commit significant time and effort to the development, creation, and maintenance of unique accounting codes to support Texas RE. Time spent by these individuals on such organizational initiatives will be discretely tracked and charged to Texas RE at the standard labor rate (\$65 per hour). The time submitted must be approved by Texas RE management.
 - iv. See Exhibit 4 for additional background information regarding the accounting, budget, financial analysis, and payroll allocation.
- e. Facilities Services Cost Allocation.
 - i. ERCOT's facilities, physical security, and telecommunications network personnel provide a variety of services benefiting Texas RE including leased office space, rented storage space, utilities (electricity, water and wastewater service, fuel oil for backup generators, natural gas, and trash services), telecommunications services (local and long distance telephone service, conference bridge and conference call services, and Internet connectivity), maintenance services (building maintenance, grounds maintenance, custodial services, and building security services), office space remodeling, and office equipment.
 - ii. The facilities service cost allocation will be assessed as \$27.37 per year per square foot (\$2.28 per month per square foot) of space allocated to Texas RE.
 - (1) Based on current space utilization, it is expected the Facilities Service Cost Allocation to Texas RE will total approximately \$118,000 per year.



- iii. See Exhibit 5 for additional background information regarding the facilities allocation.
- f. Information Technology Services Cost Allocation
 - i. Employees of Texas RE will make use of software applications and hardware assets that are made available to all ERCOT staff but centrally administered by ERCOT's Information Technology (IT) staff. One significant cost incurred to provide hardware and software assets for the benefit and efficiency of ERCOT staff, including employees of Texas RE, relates to the proper maintenance and licensing of the hardware and software.
 - ii. The IT allocation will be approximately \$8,200 per Texas RE employee per year. Assuming Texas RE has 25 employees in 2008, the annual allocation to Texas RE would total approximately \$205,000, and assuming Texas RE has 30 employees in 2009, the annual allocation to Texas RE would total approximately \$246,000.
 - iii. See Exhibit 6 for additional background information regarding the Information Technology allocation.
- g. ERCOT personnel assigned to ERCOT departments other than those detailed above may also provide support to Texas RE. However, rather than systematically allocate a portion of the cost of such personnel to Texas RE, the appropriate support costs will be determined and charged to Texas RE on a case-by-case basis.
- h. Any additional administrative services requested of, agreed to, and approved by ERCOT and Texas RE will be billed to Texas RE at the standard rate of \$65 per hour, which includes reimbursement for salary and benefits of the ERCOT staff person providing the services.
- i. Other services requested by Texas RE will be priced as agreed by the ERCOT CFO and the Texas RE CCO.
- j. Allocation amounts detailed above are valid in 2008 and for as long as Texas RE primarily conducts its business activity in ERCOT's Met Center facility and has no material changes to its staffing level, space needs, or service needs and ERCOT has no significant change in the costs incurred to provide services to Texas RE.
- k. Allocation amounts established are subject to change if Texas RE vacates the Met Center facility, has a material change to its staffing level, space needs, or requires a material change in the level of service provided by ERCOT's support department personnel and ERCOT has no significant change in the costs incurred to provide services to Texas RE.
- l. Allocation amounts established may be adjusted or cancelled given 60-day's notice and the agreement of the ERCOT CFO and the Texas RE CCO.



V. General Provisions

- A. ERCOT and Texas RE will commit to accomplish all provisions in this MOU to the best of their ability, in a commercially reasonable manner.
- B. This MOU is intended only to address how support services and other activities provided by ERCOT staff to Texas RE should be captured and presented in accounting records. This MOU is not intended to direct or bind any person outside ERCOT or Texas RE.
- C. This MOU neither expands nor is it in derogation of those powers and authorities vested in ERCOT or Texas RE by applicable law.

VI. Principle Contacts

ERCOT and Texas RE designate the contacts identified below. ERCOT or Texas RE may change their contact upon notice to the other party.

VII. Effective Date and Duration:

This MOU is effective January 1, 2008. It shall continue to be in effect until terminated by ERCOT or Texas RE.

Bob Kahn
President & CEO
Electric Reliability Council of Texas, Inc.
BKahn@ercot.com

Date: 6/13/08



Larry Grimm
Chief Executive Officer & CCO
Texas Regional Entity, an independent division of
Electric Reliability Council of Texas, Inc.
Larry.Grimm@texasre.org

Approved as to
Form SV

Date: 06/10/2008

Exhibit 1
Texas RE - ERCOT Memorandum of Understanding
Treasury and Credit Services Cost Allocation

Base Allocation

ERCOT's treasury and credit personnel provide a variety of services benefiting the Texas RE including: credit management; finance and debt management; enterprise risk management, including insurance programs; and cash investments and banking services. Total allocations relating to treasury and credit personnel for 2008 are \$72,000.

Insurance

Insurance Type	Allocation Basis	2008 Allocation	Comment
D&O Premiums	25%	\$ 56,756	Tie allocation to allocated share of independent director fees.
Property	Square Feet	\$ 1,668	Linked to square feet of space used by Texas RE staff.
Workers Compensation	Staff Count	\$ 3,593	Cost assumed a function of headcount.
Other	Square Feet	\$ 1,002	Linked to square feet of space used by Texas RE staff.
Total		\$ 63,017	

Enterprise Risk Management

Insurance Premiums Allocated to Texas RE	\$ 63,017
Total ERCOT Insurance Premiums	\$ 1,691,547
Proportion of Premiums Allocated	3.73%
Annual ERM Cost	\$ 100,000
ERM Cost Allocated to Texas RE	<u>\$ 3,725</u>

Treasury and Cash Management

Treasury and Cash Management Costs	\$ 390,637	
Total ERCOT Costs	\$ 225,415,000	
Treasury and Cash Management Costs relative to Total ERCOT Costs		0.17% Applied to each dollar spent by the Texas RE. For example if the the Texas RE spends \$3 million, the allocation for treasury and cash management services will total \$5,100 (\$3 million * 0.17%).

Credit Management

No allocation of cost to Texas RE.

Exhibit 2
Texas RE - ERCOT Memorandum of Understanding
Human Resource Services Cost Allocation

Base Allocation

ERCOT's human resource personnel provide a variety of services benefiting the Texas RE including recruitment and hiring, performance management, employee benefit administration, and employee training. The cost allocation for the services will be \$113 per employee per month (calculation summarized below).

Assuming the Texas RE will have 30 employees throughout 2008, the base human resources allocation for the year is expected to total approximately \$40,680.

A summary of the tasks and services provided by human resource staff is listed below.

Total Human Resources expenses recorded in 2007	\$ 1,129,000
Less:	
Recruiting expenses (Account 65240) recorded in 2007	\$ 24,000
Estimated 2007 internal recruiting labor and benefits cost	\$ 140,000
External 2007 recruiting cost (Vendor 2271)	\$ 55,363
External 2007 recruiting cost (Vendor 2339)	\$ 81,669
Adjusted Human Resources expenses recorded in 2007	\$ 827,968
ERCOT employee count at January 1, 2007	591
ERCOT employee count at January 1, 2008	625
Average employee count in 2007	608
Adjusted Human Resources expenses recorded in 2007	\$ 827,968
Average employee count in 2007	608
Average annual human resource expense per ERCOT employee	\$ 1,362
Average monthly expense per employee	\$ 113

Human Resources Task Descriptions

- Provide HR and organizational development support
- Define, create and manage HR strategy
- Develop succession and career plans
- Implement organizational changes
- Manage and coordinate board activities regarding human resources, compensation, benefits, and training
- Plan, organize, and facilitate ERCOT's annual member meeting
- Design, manage, and maintain compensation and benefits offered to ERCOT employees
- Prepare and distribute periodic internal reports on HR issues
- Prepare and distribute periodic external reports regarding HR issues (e.g. Annual EEO1, reports to external auditors, and schedules to benefits vendors)
- Develop, manage, and ensure compliance with human resource related policies, standards, and procedures
- Oversee and administer workforce benefits
- Oversee and administer workforce compensation
- Provide support to ERCOT's Strategic Review Team, Policy Review Team and other similar initiatives impacting ERCOT's workforce
- Create and review contracts and agreements relating to human resource issues
- Administer ERCOT's family medical leave program
- Coordinate and review annual filing with the Internal Revenue Service and Department of Labor
- Monitor and ensure benefit plan compliance
- Prepare and support internal audit requests related to benefits
- Coordinate and complete a quarterly review of 401(k) plan investment and recommend changes, if any
- Manage ERCOT's annual merit review process
- Complete an annual review of employee classification
- Manage and update (as necessary) job descriptions and position grading to ensure continued pertinence and consistency with the current job market
- Manage ERCOT's employee recognition and reward program
- Manage annual audit of ERCOT's benefit plans including preparation of work papers to support compensation audit requests
- Manage workforce relations and the employee life cycle
- Coordinate retention, moral, other social programs enjoyed by ERCOT staff

Exhibit 3 a
Texas RE - ERCOT Memorandum of Understanding
Procurement, Contract Administration and Strategic Sourcing Services Cost Allocation

Base Allocation

ERCOT's procurement and contract administration personnel provide a variety of services benefiting the Texas RE including: administering competitive processes such as request for proposal and request for information functions; managing vendor selection and evaluation processes; overseeing contract administration and compliance functions; and administering purchase order services. A summary of the tasks and services is listed below.

Procurement, Contract Administration and Strategic Sourcing Task Descriptions
Prepare period status reports on procurement and contract administration activity
Establish, monitor and modify, as necessary, internal controls relating to procurement and contract administration
Provide assistance to the vendor payment process to ensure professional vendor relationships
Issue purchase orders and related documentation
Prepare requests for proposals, requests for information, requests for quote and similar procurement documentation
Evaluate vendor proposals to provide goods and/or services to ERCOT
Negotiate pricing terms with vendors
Develop sourcing options for goods and services
Administer the process to qualify vendors to conduct business
Manage vendor relationships with ERCOT including activity such as ensuring vendors possess necessary insurance coverages and remain on acceptable financial condition
Analyze vendor activity and performance to ensure contractual compliance among other reasons
Monitor contracts and alert business users of upcoming events such as expiration dates, renewal dates, or compliance issues

Exhibit 3 b
Texas RE - ERCOT Memorandum of Understanding
Procurement, Contract Administration and Strategic Sourcing Services Cost Allocation

\$ 969,559 Total 2007 expense for department 112 - Procurement and Contract Administration

65% Percentage of Total 2007 expense for department 112 associated with Procurement

35% Percentage of Total 2007 expense for department 112 associated with Contract Administration

\$ 630,213 Amount of Total 2007 expenses for department 112 associated with Procurement

40% Percentage of cost associated with Procurement relating to RFP/PO transactions

60% Percentage of cost associated with Procurement relating to PO transactions (no RFP)

\$ 252,085 Amount of 2007 costs associated with RFP/PO transactions

41 Number of RFP/PO transactions in 2007

\$	6,148	Assumed annual cost per RFP/PO transaction
\$	512	Assumed monthly cost per RFP/PO transaction

\$ 378,128 Amount of 2007 costs associated with PO transactions (no RFP)

1,587 Number of PO transactions (no RFP) in 2007

\$	238	Assumed annual cost per PO transaction (no RFP)
\$	20	Assumed annual cost per PO transaction (no RFP)

\$ 339,346 Amount of Total 2007 expenses for department 112 associated with Contract Administration

650 Number of contracts being in 2007

\$	522	Assumed annual cost per contract administered in 2007
\$	44	Assumed annual cost per contract administered in 2008

Procurement Cost per Unit

Contract Administration Cost per Unit

Exhibit 4
Texas RE - ERCOT Memorandum of Understanding
Accounting, Budget, and Payroll Services Cost Allocation

Base Allocation

ERCOT's accounting, budget, and payroll personnel provide a variety of services benefiting the Texas RE including financial statement preparation, regular and ad-hoc financial analyses, periodic and ad-hoc regulatory (federal and state) filing preparation, budget coordination and preparation, participation in ERO sponsored financial and budget meetings, payroll administration and processing, time tracking monitoring and reporting, vendor payments, billing and accounts receivable transaction processing, reimbursement of Texas business expenses incurred by Texas RE staff.

During 2008, ERCOT's controller, accounting manager, accounting supervisor, and budget manager are expected to commit significant time and effort to the development, creation, and maintenance of unique accounting codes to support the Texas RE. Time spent by these individuals on such organizational initiatives will be discretely tracked and charged to the Texas RE at actual labor rates.

Accounting, budget, and financial analysis

2008 cost per month	\$	2,000
Months in the year		12
2008 allocated cost	\$	24,000

Payroll

2008 cost per month	\$	2,000
Months in the year		12
2008 allocated cost	\$	24,000

Exhibit 5 a
Texas RE - ERCOT Memorandum of Understanding
Facilities Services Cost Allocation

Cost per square foot			
Square feet of ERCOT facilities	221,000		
ERCOT facilities cost	\$ 6,047,686		
2007 ERCOT facility cost per square foot	\$ 27.37	per square foot per year	
	\$ 2.28	per square foot per month	
Space directly occupied by Texas RE staff	2,526	2,526	
Texas RE proportional share of common space in dedicated to the Texas RE and IMM			
Square feet occupied by Texas RE staff	2,526	73%	
Square feet occupied by Independent Market Monitor staff	936	27%	
Square feet occupied by Texas RE and IMM staff	<u>3,462</u>	<u>100%</u>	
Square feet of common space dedicated to the Texas RE and IMM staff	684		
Texas RE's relative share of space occupied by Texas RE and IMM staff	73%		
Texas RE's proportional share of common space dedicated to the Texas RE	499		499
Space directly occupied by Texas RE staff	3,025		3,025
Space directly occupied by IMM staff	1,120		
Subtotal - Texas RE & IMM space in dedicated, secured area	4,145		
Divided by Adjusted square footage in the Met Center	45,000		
Texas RE's proportional share of Adjusted square footage in the Met Center	7%		
Common area square footage in the Met Center (excluding common space dedicated to the Texas RE and IMM)	19,153		
Texas RE proportional share of common space not dedicated to the Texas RE and IMM	1,288		1,288
Grand Total of Texas RE Space and Common Space	4,313		4,313
Total square footage allocated for the Texas RE	4,313	square feet	
Estimated facilities charge			
	\$ 118,015	per year	
	\$ 9,835	per month	

Exhibit 5 b
Texas RE - ERCOT Memorandum of Understanding
Facilities Services Cost Allocation

Expense Description	Account	Dept	2007 Actual
<u>Utilities</u>			
Electricity	73120	325	1,422,453
Fuel Oil	73128	325	11,739
Water/Gas/Sewer/Trash	73160	325	75,272
Subtotal - Utilities			<u>1,509,464</u>
<u>Rent</u>			
Office Rental	67000	325	690,252
Storage Rental	67060	325	44,162
Subtotal - Rent			<u>734,414</u>
<u>Telecom</u>			
Telephone - Local	73080	330	182,230
Telephone - Long Distance	73085	330	103,072
Internet Service	73200	330	81,596
Subtotal - Telecom			<u>366,897</u>
<u>Building Maintenance</u>			
Building Maintenance	73180	325	185,116
Building Maintenance	73181	325	385,147
Grounds Maintenance	73182	325	64,666
Custodial Service	73183	325	228,803
Misc Services	73184	325	102,500
Bldg Security Services	73185	371	995,203
Subtotal - Maintenance			<u>1,961,436</u>
<u>ERCOT Labor and Benefits</u>			
Facilities Staff	Various	325	1,145,903
Physical Security Staff	Various	371	329,572
Subtotal - Labor and Benefits			<u>1,475,475</u>
Total			<u><u>6,047,686</u></u>

Exhibit 6
Texas RE - ERCOT Memorandum of Understanding
Information Technology Services Cost Allocation

Texas Regional Entity - IT Services Cost Breakdown

Internal User Services	Per Annum	Per Month
<i>License & Maintenance related charges</i>		
Microsoft	675	56
Oracle	186	16
Quest	164	14
Cisco	103	9
Altiris	43	4
Symantec	26	2
IBM	144	12
Lawson	204	17
Other	173	14
Total Technology Services	1,719	143
<i>Labor related charges</i>		
IT Operations & Overhead		
CIO Administration	1,141	95
IT Account Management	444	37
Enterprise Architecture	17	1
EIS	116	10
Corporate Applications	1,029	86
Web & Data Services	22	2
Database Administration	56	5
Release Management	63	5
Commercial Operations	103	9
SE&A	724	60
Storage Resources	78	6
WAN	979	82
Networking	385	32
Console Operations	583	49
IT Project Management	330	27
Total IT Operations & Overhead	6,070	505
Total Internal User Services	7,789	649
(per Employee/Annum)		
Total for 30 Employees	233,665	19,457
Computer Hardware Lease	11,880	990
Total TRE IT Costs	245,545	20,447

Internal User Services:

▪ Desktop Services	Other:	
▪ Corporate Applications	Audit-Paisley Consulting	1,212
▪ Intranet	Hummingbird	708
▪ Voice, Internet, WebEx	Aperture	19,364
▪ Project Management	Informatica	35,625
	Sun IDM	50,800
	OSI - PI app	34,775
		<u>142,484</u>

Desktop Services:

The management of the desktop environment including labor, licenses, and support and maintenance fees paid to vendors in support of desktop services. Includes file storage and print services, data backup and restoration, helpdesk services, and other services in the support of maintaining file/print services and the desktop environment.

Corporate Applications:

These services fulfill the operational and maintenance requirements of ERCOT Corporate Applications Hardware and Software resources, thereby enabling and enhancing productivity of corporate operations. Applications include: AIM Service Desk, Aperture Vista, Altiris, Aperture View, Internal Audit Applications, Fund Transfer Wiring Tools, Hummingbird, Lawson (ERP function) MS Project Server, SharePoint Portal, and others.

Intranet:

These services fulfill the operational and maintenance requirements corporate Intranet, including content and infrastructure management

Voice, Internet, WebEx:

These services fulfill the operational and maintenance requirements of communications infrastructure that include Voice telephony, Internet Connectivity and web conferencing (WebEx)

Project Management:

These services fulfill the project, program and portfolio management requirements for Operations & Maintenance projects, related to both Zonal Market as well as Internal User services, thereby enabling / enhancing efficiency of project lifecycle