



2011 Business Plan and Budget

Texas Reliability Entity, Inc.

Approved by:

May 10, 2010 Draft



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Introduction

TOTAL RESOURCES (in whole dollars)				
	2011 Budget	U.S.	Canada	Mexico
Statutory FTEs	49.0			
Non-statutory FTEs	1.0			
Total FTEs	50.0			
Statutory Expenses	\$ 9,467,240			
Non-Statutory Expenses	\$ 260,241			
Total Expenses	\$ 9,727,481			
Statutory Inc(Dec) in Fixed Assets	\$ (153,085)			
Non-Statutory Inc(Dec) in Fixed Assets	\$ -			
Total Inc(Dec) in Fixed Assets	\$ (153,085)			
Statutory Working Capital Requirement*	\$ 117,223			
Non-Statutory Working Capital Requirement**	\$ -			
Total Working Capital Requirement	\$ 117,223			
Total Statutory Funding Requirement	\$ 9,431,378			
Total Non-Statutory Funding Requirement	\$ 260,241			
Total Funding Requirement	\$ 9,691,619			
Texas RE Statutory Funding Assessments	\$ 9,167,778	\$ 9,167,778		
Texas RE Non-Statutory Fees	\$ 260,241	\$ 260,241		
NEL	312,204,000	312,204,000		
NEL%	100%	100%		

*Refer to Table B-1 on page 65 in Section B.

**Refer to the Reserve Analysis on page 79 in Section C.

Organizational Overview

Texas Reliability Entity, Inc. (Texas RE) is a Texas non-profit corporation that was formed to be the regional entity for the Electric Reliability Council of Texas (ERCOT) region and to preserve and enhance reliability across the ERCOT region by encouraging a culture of compliance among all users, owners, and operators of the Bulk-Power System (BPS). Texas RE and North American Electric Reliability Corporation (NERC) have executed an Amended and Restated Delegation Agreement (Delegation Agreement) for the ERCOT region, and this Delegation Agreement was approved by the Federal Energy Regulatory Commission (FERC) on May 6, 2010.

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

In addition to performing Statutory duties as a regional entity, Texas RE will also perform limited Non-Statutory duties. Texas RE does not anticipate performing the audits, investigations, or other monitoring or reporting of market participants' compliance with ERCOT Protocols and

Approved by the Texas RE Board of Directors: xxxx xx, 2010

Operating Guides that it performed in 2010 and its predecessor Texas Regional Entity performed in previous years. Texas RE will, however need to respond to subpoenas and provide testimony and technical support to the PUCT regarding Texas RE's previous Non-Statutory compliance and reporting from the period in which Texas RE conducted these activities, during 2011.

Membership and Governance

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

- **System Coordination and Planning:** An entity that is registered with NERC as a Reliability Coordinator (RC), Balancing Authority (BA), Planning Authority (PA), Resource Planner (RP), or Interchange Authority (IA).
- **Transmission and Distribution:** An entity that is registered with NERC as a Transmission Owner (TO), Transmission Planner (TP), Transmission Service Provider (TSP), Distribution Provider (DP), and/or Transmission Operator (TOP), and is not a Cooperative or Municipal Utility.
- **Cooperative Utility:** An entity that is (a) a corporation organized under Chapter 161 of the Texas Utilities Code or a predecessor statute to Chapter 161 and operating under that chapter; or (b) a corporation organized as an electric cooperative in a state other than Texas that has obtained a certificate of authority to conduct affairs in the State of Texas; or (c) a cooperative association organized under Tex. Rev. Civ. Stat. 1396-50.01 or a predecessor to that statute and operating under that statute that is registered with NERC for at least one reliability function.
- **Municipal Utility:** An entity that owns or controls transmission or distribution facilities, owns or controls dispatchable generating facilities, or provides retail electric service and is a municipally owned utility as defined in PURA §11.003 and is registered with NERC for at least one reliability function.
- **Generation:** An entity that is registered with NERC as a Generator Owner (GO) or Generator Operator (GOP).
- **Load-Serving and Marketing:** An entity that is registered with NERC as a Load Serving Entity (LSE), a Purchasing-Selling Entity, or any newly defined NERC reliability function for demand response.

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

Texas RE is governed by a hybrid board of directors (Board), comprised of the following nine (9) directors:

- The Texas RE Chief Executive Officer
- Four (4) Independent Directors
- Two (2) Member Directors (the Chair and Vice-Chair of the Member Representatives Committee)
- Chair of the PUCT, as an ex officio non-voting member
- Texas Public Counsel, from the Texas Office of Public Utility Counsel, as an ex officio non-voting member

The Board's primary role is to assure that Texas RE meets its requirements under the Bylaws and Delegation Agreement. The PUCT acts as the Hearing Body for contested matters under

the Compliance Monitoring and Enforcement Program (CMEP). As the Hearing Body, the PUCT makes a recommendation to the Board, and the Board makes final compliance and enforcement decisions on contested cases. The Texas RE Board performs this role, rather than a board compliance committee as used by other Regional Entities, because the Texas RE Board is smaller and has only seven voting members.

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

Statutory Functional Scope

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

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

2011 Key Assumptions

Texas RE supports the assumptions in the *2011-2013 Business Plans and Budgets – Shared Assumptions of the ERO Enterprise (NERC and the Regional Entities)* document, on which **NERC** and the eight Regional Entities collaborated to develop a common set of business planning assumptions and goals. These assumptions are incorporated in the Texas RE 2011 Business Plan and Budget. The key assumptions are as follows:

- Standards
 - The number of standards projects is expected to increase to complete the response to FERC Order 693 directives and the existing requirement to review each standard every five years.

- Texas RE and the other Regional Entities will support NERC in its continent-wide standards development efforts.
- Regional standards development processes are expected to be reviewed and updated by the Regional Entities to integrate the results-based development methodology into the regional development processes.
- Texas RE standards staff will receive training to improve its effectiveness, including training in facilitation, negotiation, project management, and leadership.
- Texas RE will support integration of the impacts of the designation or reassignment of requirements currently assigned to the Regional Reliability Organization (RRO).
- Texas RE will place significant emphasis on enhancing communication and outreach to stakeholders; increasing project level communications, education, and training; and identifying needs for new or revised standards.
- Compliance
 - Expect to see increased compliance related resource demands.
 - Streamline and improve the speed of compliance investigations.
 - Increase the number of spot checks by 10%.
 - Audits will increase in depth and complexity.
 - Increased number of audits.
 - Significant rules changes to the CMEP are anticipated in connection with current revisions to the Regional Delegation Agreements, and changes to effectuate the Three-Year Assessment and NERC's AUP Audit.
 - Enhance efficiency in compliance operations and enforcement.
 - Improve communications to industry to enhance registered entities' understanding of requirements.
 - Conduct mandatory audits of five new MOD Reliability Standards.
 - Establish more timely mechanisms to capture lessons from events analysis, compliance enforcement, and other activities in the form of recommendations to improve reliability standards to prevent future similar root causes.
 - Anticipate conducting analyses of 60 to 70 events (triggered by Events Investigation Process). Of these, anticipate conducting 1-2 detailed Compliance Investigations.
 - Number of non-CIP possible violations is expected to continue at an increasing trend.
- Registration
 - Number of registered entities may increase as a result of an increase in joint registration organizations (JROs) and possible expansion of the bulk electric system (BES) definition.
 - Ongoing refinement of registration criteria and processes will continue to increase resource demands.
 - Anticipate an increase in functions for registered entities as a result of changes in standards and refinement of JRO.
- Enforcement
 - Establish streamlined mechanisms to expedite minor, administrative violations.

- Resources will be required to develop and implement an enforcement process that encourages “good” self-reporting (systematic compliance culture to detect, report, and correct problems).
- Use “targeted, aggressive enforcement” for those matters posing the most risk to the BPS.
- Current trend of alleged violations has increased and is expected to continue (Possible Violations: January-April – 8 in 2009; 24 in 2010; Alleged Violations: January-April – 0 in 2009; 8 in 2010).

- Reliability Assessment
 - Requirement to gather data or perform analysis in support of federal initiatives related to the stimulus package, climate change, including renewable energy initiatives, and critical infrastructure protection.
 - Demand response data system (DADS) collection will begin and be mandatory.
 - Expected to provide independent reviews of assessments to assure a high level of technical rigor.
 - Anticipate two special reliability assessment initiatives.

- Events Analysis and Investigations
 - Define clear, uniform criteria/ranking for reporting and characterizing system events and security incidents.
 - Develop processes and resourcing for triage, analysis, and reporting of system events to the regulators.
 - Provide timely publication of lessons learned and recommendations and track responses to recommendations.
 - Refine the criteria and process to encourage prompt and complete self-analysis of events and disturbances to promote continuous improvement and information sharing.
 - Expect the number of events requiring review and analysis to increase.

- Situation Awareness
 - Anticipate implementing Phase 2 of the Situation Awareness Tool for FERC, NERC, and Regional Entities (SAFNR).
 - May be impacted by regional Synchro-Phasor initiatives.

- Critical Infrastructure Protection (CIP)
 - CIP activities will continue to increase significantly on all fronts; expectations are that resource requirements will double in three years.
 - The resource commitment required to conduct complete CIP audits has not yet been fully determined; auditors have little experience monitoring compliance with all 43 requirements. The mechanics of conducting a sufficient audit requires on-site audit of an appropriate number of critical assets which will substantially affect compliance resources.
 - Additional experience is required to fully estimate the resource requirements to support CIP audits.
 - Current audits of the 13 requirements have been more involved and taken more time than planned or anticipated.

- Need to plan for on-site audits of critical assets (sample number based on types of assets, risk, and numbers) in the conduct of an audit.
 - CIP version 4 Standards revisions will set new expectations for the selection of critical cyber assets and will result in a substantially expanded number of entities and assets to be fully monitored for CIP compliance.
 - TFE program will continue to require significant resources to perform reviews and gauge compensating measures. Program scope recently increased with the addition of two new CIP requirements.
 - TFE approvals will result in compensation validation checks and quarterly reporting tracking.
 - Texas RE must (FERC Order 706B) identify, train, and qualify auditors to conduct compliance monitoring of GOs/GOPs with nuclear holdings.
 - Texas RE must enhance enterprise corporate knowledge management related to CIP policy and technical standards issue resolution and decisions.
 - Texas RE will conduct security event/incident analysis and improve security practices.
 - CIP-002-2/3 R1.0 and R2.0 sufficiency reviews are planned which will require system expertise in an effort to enhance learning and prepare for the Version 4 BPS Cyber System identification.
- Training and Education
 - Expand registered entity training in the application of Reliability Standards – NERC and Regional Entity staff will define training needs and priorities and delivery will commence in the second quarter of 2011.
 - Provide CIP Standards information and guidance, including the development of and support for an education and implementation program to successfully implement Version 4 of the CIP Standards.
 - Create teachable lessons learned from past events.
 - Effective compliance program culture with internal compliance program models.
 - Root cause analysis.
 - Improve the quality of registered entity self-reporting and self-certification.
 - Currently monitored standards.
 - Reliability assessment requirements.
 - Entity registration process, issues, and alternatives.
 - Will host a minimum of two different compliance workshops.
 - Increased training and technical writing capabilities.
 - Additional compliance auditor training.
- Information Technology
 - Begin developing a common, enterprise-wide technology platform to house ERO tools, including audit and reporting, and other tools needs to conduct the delegated functions.
 - Fully utilize SharePoint to improve both internal and external communications and coordination.
- Finance and Administrative

- Should plan to have short-term and intermediate-term internal means to handle funding of hearings.
- Texas RE's chart of accounts has changed in 2011 from what was used in 2010. This is primarily because of the implementation of a new accounting system in 2010 for Texas RE's separation. As a result of this, some of the accounts are mapping to different categories than before. However, those mappings are addressed in the detailed sections.

2011 Goals and Key Deliverables

Texas RE's 2011 Business Plan and Budget is driven by the following goals:

1. Improve reliability through rigorous monitoring and enforcement of compliance with mandatory standards, in accordance with the Delegation Agreement and the CMEP:
 - a. Maintain accurate registrations for responsible entities.
 - b. Monitor compliance of registered entities in the ERCOT region with mandatory reliability standards, in accordance with the Delegation Agreement and CMEP, while adopting risk-based methodologies to optimize reliability benefits and improving quality and timeliness.
 - c. Ensure timely and thorough mitigation of all violations of mandatory reliability standards.
 - d. Enforce compliance with the mandatory reliability standards by registered entities in the ERCOT Region, in accordance with the Delegation Agreement and CMEP while improving quality and timeliness.
 - e. Promote a strong culture of compliance excellence, reliability improvement, and risk-based methods among registered entities in the ERCOT region.
 - f. Maintain a high degree of independence in all compliance and enforcement activities.
2. Effectively communicate with NERC, other Regional Entities, regulators, and industry stakeholders as follows:
 - a. Continue to build and improve cooperative relationships with other Regional Entities, registered entities, industry stakeholders, and regulators through regular, consistent messaging regarding all of Texas RE's program areas.
 - b. Deliver a consistent message through the Texas RE website and a variety of electronic media (including the bi-monthly newsletter) as a timely and efficient means of providing important information to the industry and the public.
3. Maintain effective financial controls and conduct Texas RE operations within the approved budget.
4. Maintain clear mandatory standards focused on performance requirements essential to reliability
 - a. Participate in and encourage stakeholder engagement in the development of national standards, in support of NERC projects.
 - b. Propose and facilitate development of regional standards or variances that are needed to comply with NERC's three-year work plan, FERC directives, and to meet any emergent ERCOT region-wide reliability needs.
 - c. Identify key areas needing improvement and implement educational and other technical assistance programs to improve compliance in those areas based on compliance program results and system events.

5. Continue to improve situation awareness and event analysis capabilities
 - a. Develop a situation awareness capability that meets the needs of FERC, NERC, Texas RE, and registered entities.
 - b. Improve timeliness of root cause analyses and lessons learned and strengthen overall reliability.
6. Work with NERC to facilitate and support registered entities in complying with CIP reliability standards, and responding to cyber security alerts.
 - a. Texas RE will maintain compliance with all applicable provisions of the CIP standards, as they apply to Regional Entities.
7. Efficiently adopt appropriate technology to increase efficiency and improve timeliness.
 - a. Facilitate the integration of ERO and regional entity information systems used for compliance and other applicable statutory functions.
8. Maintain knowledgeable and skilled reliability personnel.
 - a. Actively support the training and education of reliability personnel within the ERCOT region, focusing on knowledge of reliability standards and recognizing and responding to system emergencies.
9. Continuously improve.
 - a. Remain in good standing as a regional entity by addressing all applicable recommendations and directives from the 3-year ERO assessment, including stakeholder inputs, and audits by NERC and/or FERC.
 - b. Address any deficiencies or areas of improvement identified in the 2010 NERC conducted AUP audit of Texas RE.
10. Identify key performance indicators and benchmarks for Texas RE operations.

2011 Overview of Cost Impacts

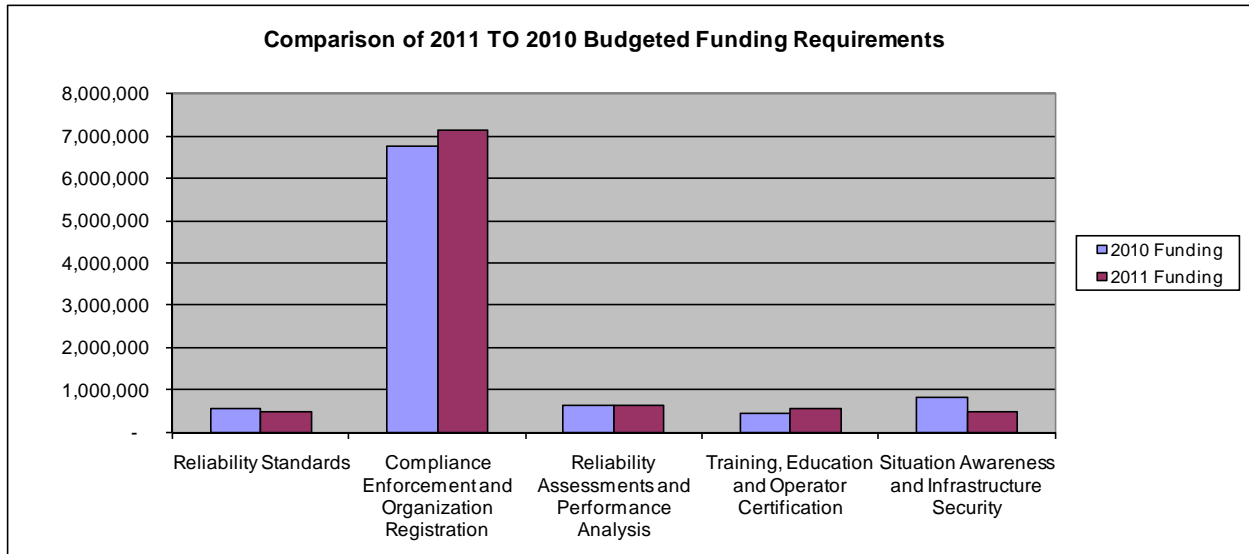
Texas RE's Statutory expenses (including capital expenses) are increasing approximately 2.7% from Statutory expenses of \$9,216K in 2010 to \$9,467K for Statutory expenses in 2011. However, Texas RE's Statutory expenses (excluding capital and start up expenses) are increasing 16.8% from 2010 to 2011. Texas RE's proposed funding request for 2011 is increasing 0.8% to \$9,431K from 2010's funding request of \$9,353K. The cost increases are primarily attributed to the following cost impact items reflected below.

1. Texas RE will not be affiliated with nor receive any administrative services from Electric Reliability Council of Texas, Inc. (ERCOT ISO) or any other registered entity during any portion 2011.
2. Texas RE will maintain an approximately 75-day cash reserve for Statutory functions. The result of this is an incremental increase of \$117K.
3. Texas RE personnel costs will increase by \$1,344K. This is as a result of the transfer of employees from Non-statutory activities to Statutory activities (as Texas RE's Non-statutory activities are substantially decreased in 2011), totaling approximately \$579K, the proposed hiring of 4 full-time equivalent employees (FTEs) totaling \$515K, merit increases (including benefits) totaling \$250K.
4. Meeting expenses are increasing by \$10K for the increased cost of the NERC and Regional Entity meetings hosted at Texas RE offices and \$8K for one membership or Member Representative Committee meeting. The total meetings expense is \$234K, of

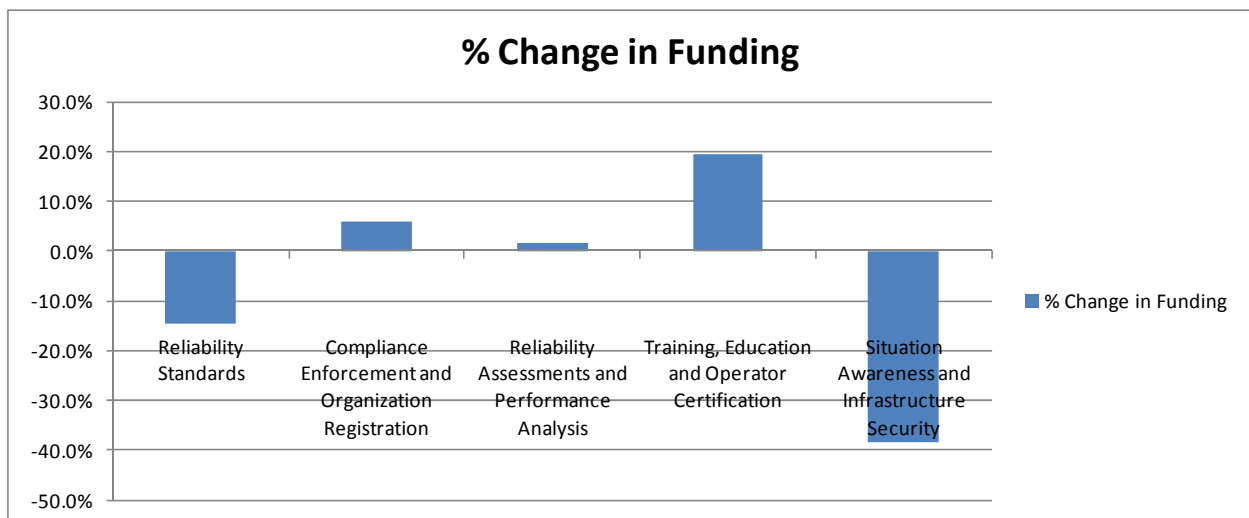
which, \$216K is reimbursed through attendance fees for the Operations Training Seminar and the Compliance, Standards, and CIP Workshops.

5. Travel expenses are also increasing \$128K for a variety of reasons. 2011 will be the first year of significant CIP audit activity, which adds approximately \$68K to the travel costs in 2011. Additionally, there is approximately \$22K in higher audit expense for the non-CIP (693) audits due to lengthier on-site audits. Finally, the remaining increase amount \$38K is primarily attributed to travel required for the Texas RE Independent Directors.
6. Conference calls are increasing by approximately \$12K related to web conferencing services, which costs are higher than when Texas RE received administrative services from ERCOT ISO through a Memorandum of Understanding (MOU).
7. Office rent is increasing \$135K year-over-year for the two reasons: First, a large portion of the rent that was previously covered by the Non-statutory budget (\$80K) is being absorbed into the Statutory budget. This is because the Non-statutory receives an allocation of indirect expenses based on its pro-rata share of FTEs, and the Non-statutory budget is substantially reduced in 2011. The second reason for the increase is because Texas RE is procuring additional space for its current staff to address growth and need for meeting space. The resulting increase from this is approximately \$55K for the year.
8. Office costs are increasing by \$176K due to the shift in expense from professional services primarily attributed to information technology (IT) services, which are outsourced at a higher expense than the amount paid to ERCOT ISO under the MOU for the first half of 2010.
9. Professional services are declining \$464K due to the elimination of start-up expenses from 2010 as well as the shifting of expense to office costs and consultants & contracts.
10. Miscellaneous expense is decreasing \$45K primarily due to the shift of training expenses to employee benefits from this account category.
11. Depreciation is increasing due to 2011 recognizing a full year of a higher depreciable base of assets. 2010 was a start-up year for Texas RE, during which it purchased significant IT equipment and other fixed assets. There is also additional depreciation expense impacting the budget in 2011 for new projects being expected to be completed in 2011.
12. Finally, fixed assets costs are decreasing because Texas RE's start-up asset purchases were completed in 2010. The year-over-year decrease is \$1,267K.

Program	Budget 2010	Projection 2010	Budget 2011	Variance	
				2011 Budget v 2010 Budget	Variance %
Reliability Standards	561,400	561,400	479,495	(81,905)	-14.6%
Compliance Enforcement and Organization Registration	6,746,229	6,746,229	7,137,907	391,678	5.8%
Reliability Assessments and Performance Analysis	630,416	630,416	640,340	9,924	1.6%
Training, Education and Operator Certification	464,526	464,526	554,727	90,200	19.4%
Situation Awareness and Infrastructure Security	813,822	813,822	501,687	(312,135)	-38.4%



*This graphical representation does not include an allocation of working capital requirements among the Program Areas



Total FTE's by Program Area	Budget 2010	Projection 2010	Direct FTEs 2011 Budget	Shared FTEs ¹ 2011 Budget	Total FTEs 2011 Budget	Change from 2010 Budget
STATUTORY						
Operational Programs						
Reliability Standards	2.06		1.97		1.97	-0.09
Compliance and Organization Registration and Certification	21.74		30.62		30.62	8.88
Training and Education	0.97		1.84		1.84	0.87
Reliability Assessment and Performance Analysis	2.44		2.72		2.72	0.28
Situation Awareness and Infrastructure Security	3.03		2.49		2.49	-0.54
Total FTEs Operational Programs	30.24	0.00	39.64	0.00	39.64	9.40
Administrative Programs						
General & Administrative	1.05		1.71		1.71	0.66
Information Technology	2.49		2.60		2.60	0.11
Legal and Regulatory	3.17		2.02		2.02	-1.15
Human Resources	0.85		1.03		1.03	0.18
Finance and Accounting	1.70		2.00		2.00	0.30
Total FTEs Administrative Programs	9.26	0.00	9.36	0.00	9.36	0.10
Total FTEs	39.50	0.00	49.00	0.00	49.00	9.50

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

2010 Budget and Projection and 2011 Budget Comparisons

Statement of Activities and Capital Expenditures					
2010 Budget & Projection, and 2011 Budget					
STATUTORY					
	2010 Budget	2010 Projection	Variance 2010 Projection v 2010 Budget Over(Under)	2011 Budget	Variance 2011 Budget v 2010 Budget Over(Under)
Funding					
Texas RE Funding					
Texas RE Assessments	\$ 9,144,340	\$ 9,144,340	\$ -	9,167,778	\$ 23,439
Penalty Sanctions	-	-	-	20,000	20,000
Total Texas RE Funding	\$ 9,144,340	\$ 9,144,340	\$ -	\$ 9,187,778	\$ 43,439
Membership Dues	27,000	27,000	-	27,500	500
Federal Grants	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	180,000	180,000	-	215,500	35,500
Interest	2,000	2,000	-	600	(1,400)
Miscellaneous	-	-	-	-	-
Total Funding	\$ 9,353,340	\$ 9,353,340	\$ -	\$ 9,431,378	\$ 78,039
Expenses					
Personnel Expenses					
Salaries	\$ 3,841,781	\$ 3,498,056	\$ (343,724)	\$ 4,697,960	\$ 856,179
Payroll Taxes	302,981	282,630	(20,351)	415,003	112,022
Benefits	408,773	378,687	(30,086)	655,954	247,181
Retirement Costs	550,669	519,226	(31,443)	679,148	128,479
Total Personnel Expenses	\$ 5,104,203	\$ 4,678,599	\$ (425,604)	\$ 6,448,065	\$ 1,343,862
Meeting Expenses					
Meetings	\$ 228,000	\$ 179,185	\$ (48,815)	\$ 234,300	\$ 6,300
Travel	194,392	173,159	(21,233)	322,753	128,361
Conference Calls	-	-	-	12,000	12,000
Total Meeting Expenses	\$ 422,392	\$ 352,344	\$ (70,048)	\$ 569,053	\$ 146,661
Operating Expenses					
Consultants & Contracts	\$ 604,483	\$ 604,483	\$ -	\$ 608,171	\$ 3,688
Office Rent	363,900	363,900	-	499,000	135,100
Office Costs	48,612	48,612	-	224,495	175,883
Professional Services	1,214,246	1,456,562	242,316	750,000	(464,246)
Miscellaneous	44,843	44,843	-	-	(44,843)
Depreciation	299,657	343,657	44,000	443,085	143,428
Total Operating Expenses	\$ 2,575,740	\$ 2,862,056	\$ 286,316	\$ 2,524,751	\$ (50,989)
Total Direct Expenses	\$ 8,102,335	\$ 7,892,999	\$ (209,336)	\$ 9,541,869	\$ 1,439,534
Indirect Expenses	\$ (0)	\$ (0)	\$ -	\$ (74,629)	\$ (74,629)
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 8,102,335	\$ 7,892,999	\$ (209,336)	\$ 9,467,240	\$ 1,364,905
Change in Assets	\$ 1,251,005	\$ 1,460,341	\$ 209,336	\$ (35,862)	\$ (1,286,866)
Fixed Assets					
Depreciation	(299,657)	(343,657)	(44,000)	(443,085)	(143,428)
Computer & Software CapEx	1,081,500	1,358,496	276,996	290,000	(791,500)
Furniture & Fixtures CapEx	332,215	334,391	2,176	-	(332,215)
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	\$ (1,114,058)	\$ (1,349,229)	\$ (235,171)	\$ 153,085	\$ 1,267,143
Allocation of Fixed Assets	\$ 0	\$ 1	\$ -	\$ (0)	\$ (0)
Change in Fixed Assets	(1,114,058)	(1,349,228)	(235,171)	153,085	1,267,143
TOTAL CHANGE IN NET ASSETS	\$ 136,947	\$ 111,112	\$ (25,835)	\$ 117,223	\$ (19,724)

Section A – Statutory Programs 2011 Business Plan and Budget



Section A — 2011 Business Plan

Reliability Standards Program

Reliability Standards Program (in whole dollars)			
	2010 Budget	2011 Budget	Increase (Decrease)
Total FTEs	2.06	1.97	(0.09)
Direct Expenses	\$ 273,959	\$ 330,643	\$ 56,685
Indirect Expenses	\$ 228,439	\$ 147,018	\$ (81,421)
Inc(Dec) in Fixed Assets	\$ (59,002)	\$ (1,833)	\$ 57,169
Total Funding Requirement	\$ 443,396	\$ 475,829	\$ 32,433

Program Scope and Functional Description

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

The Texas RE Standards Development Process is open to all individuals and organizations that are directly and materially affected by the ERCOT region BPS, with no undue financial barriers and regardless of whether it is a Texas RE member. As of May 1, 2010, Texas RE has 94 members and 49 entities have joined the Registered Ballot Body.

Texas RE's Standards Development Process provides for fair and due process by providing sufficient public notice of the intent to develop a regional standard. In addition, all proposed standards are posted on the Texas RE Reliability Standards Tracking Site for public comments. The site allows all interested parties to submit comments during the commenting period. This process also provides an appeals process. The site allows all registered parties (including NERC registered entities and others) to efficiently submit comments on Standard Authorization Requests (SARs) and draft standards during commenting periods, and it allows members of the Registered Ballot Body to vote online.

Texas RE staff supports and participates in the NERC Standards Committee and Regional Reliability Standards Working Group and has contributed to the 2010-2012 NERC Work Plan. The Texas RE Standards Coordinator was nominated and accepted into the NERC Communications and Planning Subcommittee of the NERC Standards Committee. In addition, the Texas RE staff review draft reliability standards from other regions (and from NERC), and staff from other regional entities review draft Texas RE regional standards.

Texas RE informs stakeholders of the impact and requirements of emerging NERC standards through training at the Texas RE workshops and through other means including bi-monthly newsletters and email list announcements. In general, Texas RE works to ensure that stakeholders have the most current and accurate information on reliability standards. Procedures, forms, meetings, minutes, notes, agendas, drafts, etc., for all regional activities

associated with standards are posted in a timely fashion on the Texas RE website. Market notices on major topics and upcoming meetings are sent regularly to Texas RE email lists. Articles on reliability standards topics are included in the bi-monthly Texas RE newsletter.

Other functions performed by the Texas RE Standards staff (cooperating with other Texas RE functions) include:

- Monitor NERC and FERC standards-related activities and communicate relevant actions to other Texas RE employees as well as registered entities in the ERCOT Region;
- Monitor the ERCOT Protocol and Operating Guide revision process and the PUC rule revision process to identify and react to proposals that have the potential to affect the reliability of the BPS;
- Provide timely information regarding Texas RE standards development activities to other interested parties in the Region, including various ERCOT stakeholder committees.

2011 Key Assumptions

- Regional Standards workflow will generally remain generally constant, with no more than four (4) new SARs being developed during 2010, but will include integration of the impacts of the reassignment of requirements currently assigned to the Regional Reliability Organization (RRO).
- Standards program staffing is complete with two employees who also spend some time supporting the Membership Forum program, equating to 2.17 full time equivalent employees (FTEs) to maintain the continuation of existing SARs and development of potential new ones.
- The Standards program will enhance its outreach to stakeholders through additional announcements, newsletters, and enhancement of its training programs.
- As a voting member of NERC Texas RE will be able to fully and independently participate in NERC standards activities. Standards staff will continue to support NERC in its continent-wide standards development efforts and will coordinate NERC standards participation in the ERCOT region, including reviewing issues and providing recommendations regarding commenting and voting in the NERC process. A stakeholder subcommittee may be formed to assist with this work.
- National standards projects will increase, in response to FERC Order 693, other FERC directives, and the need to review all standards every five years.
- Texas RE Standards staff will participate in additional NERC training to improve their effectiveness, including training in facilitation, negotiation, project management, and leadership.
- Travel will increase in 2011 to meet goals of increasing participation in NERC and other regional committees and subcommittees, additional training, and increasing local travel related to interactions with stakeholders and regulators.
- Texas RE will be able to hold Standards meetings, including RSC, at Texas RE's new office in 2011; so, Texas RE will not need to rent conference facility space for these meetings.

2011 Goals and Key Deliverables

The goals of the Reliability Standards Program for 2011 are as follows:

1. Meet all FERC and NERC directives with regard to regional standards development and procedures and maintain effective relationships and communications with the standards staff at NERC and the other regional entities.
2. Develop regional standards program communications that educate and inform stakeholders and support the Texas RE Standards Development program objectives.
3. Integrate the impacts of the anticipated reassignment of requirements currently assigned to the RRO.
4. Work closely with NERC and registered entities within the Texas RE footprint to develop regional standards that go beyond, add detail to, or implement NERC Reliability Standards; obtain regional variances; or otherwise address issues that are not adequately addressed in NERC Reliability Standards (such as improving fill-in-the-blank requirements).
5. Facilitate Texas RE participation in NERC standards development activities. Prepare recommendations for voting on NERC ballots based on internal review and analysis and on input from stakeholders in the Region.
6. Streamline and improve Texas RE's Standards Development Process and associated tools, including integrating the results-based development methodology.
7. Consider developing an expedited process for standard development projects that do not require significant technical effort.
8. Participate and be actively involved in various NERC Reliability Standards programs and related functions.
9. Continue to enhance communication to and education of the registered entities to ensure adequate representation on the Registered Ballot Body.

To implement these goals Texas RE Standards staff is leading the RSC in developing a mechanism to provide for more comprehensive review and comment to the existing and proposed NERC standards under development, such as by forming a NERC Standards Review Subcommittee. That committee will provide input to Texas RE in connection with Texas RE's vote on NERC Standards ballots. It will also provide a forum for stakeholder discussion of issues and for preparing group comments for submission to NERC.

The BAL-001-TRE-1 Standard Drafting Team continues its work to satisfy the FERC directive to develop a primary frequency response mechanism in a Regional Standard, by translating the requirements in ERCOT Protocol section 5.9 into a Regional Standard format. The team has gone beyond the specific order of the directive by developing an enhanced primary frequency response standard and metric. The team has developed a quantitative performance metric for individual generating units, which has received substantial attention at the national level.

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

Funding Sources and Requirements — Explanation of Increase (Decrease)**Funding Sources**

- Funding received for this activity is through assessment income and fully funds total expenses and fixed asset requirements.

Personnel Expenses

- Headcount is decreasing approximately .09 FTEs, which brings the total to 1.97 FTEs for Reliability Standards. Despite the adjustments in staff, there has been a base increase of \$59K for personnel expenses.

Meeting Expenses

- It is expected that Reliability Standards will host several NERC related meetings and standards meetings that will require resources. The result of which is the addition of \$3K in costs for these activities.
- Travel will increase for the Reliability Standards activity. With the volume of NERC related meetings and workgroup meetings, the costs of attendance to those meetings will be higher by \$3K year-over-year.

Operating Expenses

- Office costs are increasing year-over-year related to additional professional dues.
- The budget for Professional services in 2011 is for for the Standards Tracking system, which tracks voting for the Reliability Standards area. This expense (\$10K) was included in Professional Services in 2010.
- In 2010, professional dues reflected under miscellaneous, totaling less than \$1K. In 2011, that expense was reclassified to office costs as part of the dues account.

Indirect Expenses

- The indirect expenses for 2011 are budgeted at \$147K, which reflects a decrease of \$81K year-over-year due to lower administrative services costs. The lower costs for administrative services are attributed to non-recurring start-up costs paid in 2010.

Other Non-Operating Expenses

- N/A

Fixed Asset Additions

- There are capital costs for software revisions to the Reliability Standards Tracking system that are being reflected under Reliability Standards.

Reliability Standards Program

Funding sources and related expenses for the reliability standards section of the 2011 business plan are shown in the table below.

Statement of Activities and Capital Expenditures					
2010 Budget & Projection, and 2011 Budget					
Reliability Standards					
	2010 Budget	2010 Projection	Variance 2010 Projection v 2010 Budget Over(Under)	2011 Budget	Variance 2011 Budget v 2010 Budget Over(Under)
Funding					
Texas RE Funding					
Texas RE Assessments	\$ 561,400	\$ 561,400	\$ -	\$ 479,495	\$ (81,905)
Penalty Sanctions	-	-	-	-	-
Total Texas RE Funding	\$ 561,400	\$ 561,400	\$ -	\$ 479,495	\$ (81,905)
Membership Dues	-	-	-	-	-
Federal Grants	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 561,400	\$ 561,400	\$ -	\$ 479,495	\$ (81,905)
Expenses					
Personnel Expenses					
Salaries	\$ 184,729	\$ 168,201	\$ (16,528)	\$ 224,432	\$ 39,703
Payroll Taxes	14,901	13,900	(1,001)	19,937	5,036
Benefits	20,489	18,981	(1,508)	29,115	8,626
Retirement Costs	26,697	25,173	(1,524)	32,543	5,845
Total Personnel Expenses	\$ 246,816	\$ 226,255	\$ (20,561)	\$ 306,026	\$ 59,210
Meeting Expenses					
Meetings	\$ 400	\$ 314	\$ (86)	\$ 3,700	\$ 3,300
Travel	6,824	6,079	(745)	9,987	3,163
Conference Calls	-	-	-	-	-
Total Meeting Expenses	\$ 7,224	\$ 6,393	\$ (831)	\$ 13,687	\$ 6,463
Operating Expenses					
Consultants & Contracts	\$ -	\$ -	\$ -	\$ 10,000	\$ 10,000
Office Rent	-	-	-	-	-
Office Costs	480	480	-	930	450
Professional Services	18,824	18,824	-	-	(18,824)
Miscellaneous	615	615	-	-	(615)
Depreciation	-	-	-	-	-
Total Operating Expenses	\$ 19,919	\$ 19,919	\$ -	\$ 10,930	\$ (8,989)
Total Direct Expenses	\$ 273,959	\$ 252,567	\$ (21,392)	\$ 330,643	\$ 56,685
Indirect Expenses	\$ 228,439	\$ 228,439	\$ -	\$ 147,018	\$ (81,421)
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 502,398	\$ 481,006	\$ (21,392)	\$ 477,662	\$ (24,736)
Change in Assets	\$ 59,002	\$ 80,394	\$ 21,392	\$ 1,833	\$ (57,169)
Fixed Assets					
Depreciation	-	-	-	-	-
Computer & Software CapEx	-	-	-	10,000	10,000
Furniture & Fixtures CapEx	-	-	-	-	0
Equipment CapEx	-	-	-	-	0
Leasehold Improvements	-	-	-	-	0
(Incr)Dec in Fixed Assets	\$ -	\$ -	\$ -	\$ (10,000)	\$ (10,000)
Allocation of Fixed Assets	\$ (59,002)	\$ (59,002)	-	8,167	\$ 67,169
Change in Fixed Assets	\$ (59,002)	\$ (59,002)	\$ -	\$ (1,833)	\$ 57,169
TOTAL CHANGE IN NET ASSETS	\$ 0	\$ 21,392	\$ 21,392	\$ 0	\$ (0)

Compliance Monitoring and Enforcement and Organization Registration and Certification Program

Compliance Monitoring and Enforcement and Organization Registration and Certification Program (in whole dollars)			
	2010 Budget	2011 Budget	Increase (Decrease)
Total FTEs	21.74	30.62	8.88
Direct Expenses	\$ 3,465,857	\$ 4,978,467	\$ 1,512,611
Indirect Expenses	\$ 2,409,652	\$ 2,285,130	\$ (124,522)
Inc(Dec) in Fixed Assets	\$ 870,720	\$ (125,691)	\$ (996,411)
Total Funding Requirement	\$ 6,746,229	\$ 7,137,907	\$ 391,678

Program Scope and Functional Description

Texas RE's Compliance Monitoring and Enforcement and Organization Registration and Certification Program includes effectively performing Compliance Monitoring and Enforcement Program (CMEP) in the ERCOT region. Key activities include registering (and where required, certifying) responsible entities, monitoring and assessing compliance with the NERC Reliability Standards and Regional Standards, and enforcing and ensuring mitigation of violations of Standards in accordance with NERC Rules of Procedure. The primary monitoring and assessment methods include audits, self-reports, self-certifications, spot checks, event analyses, compliance investigations, and data submittals. Texas RE's substantially increased CIP activities during 2011- 2013 will have the most impact on this program. Texas RE had only one Table 1 CIP entity, so all but one registered entity become audibly compliant for the first time in 2011. These activities are expected to further expand in 2012 and 2013, as Version 4 of the CIP standards will set new expectations for the selection of Critical Cyber Assets (CCAs) currently based on CIP-002's risk-based methodology that will result in a substantially expanded number of entities and assets to be monitored for CIP compliance.

2011 Key Assumptions

Organization Registration and Certification

- Texas RE will expend significant additional resources identifying, surveying, and mapping non-registered entity transmission and generation assets, including those of substantial industrial facilities in the region, which efforts have not yet been possible due to staffing constraints
- The amount of registration maintenance and review efforts will remain at least at 2010 levels
- Texas RE will improve the timeliness of its registration activities and communications with stakeholders
- Significant JRO workload will continue, for maintenance of the existing JROs and Coordinated Functional Registrations (CFRs) and for facilitation of anticipated new JROs and CFRs
- No registration disputes are budgeted for 2011.

- Significant additional time and resources will be expended communicating with owners of and analyzing and registering (and certifying, where needed) new transmission assets being planned and constructed as part of the Competitive Renewable Energy Zone (CREZ) transmission line projects in the ERCOT region. The Texas RE and NERC Portals should be fully functional and supporting electronic registration of new entities, revised entity information and reporting of registration information to NERC by early 2011.
- The number of registered functions is expected to continue to increase in 2011.

Compliance Monitoring

- The total number of non-CIP audits (693) will remain relatively constant
- The number of on-site audits will continue to increase (and the number of table top audits will decrease) and, due to the depth and complexity of the audits (including the addition of new standards such as the five new MOD Standards), the time to perform each audit will continue to increase
- CIP related audits will be added to the 2011 audit schedule as most registered entities become auditably compliant
- Approximately 14 of the 20 CIP audits will be performed on-site and 6 will be tabletop audits. On-site audits are expected to require twice the time of other audits.
- The audit group will provide scheduling and coordination of the CIP audits
- The audit group will provide a lead auditor for each CIP audit and one additional support auditor for the on-site CIP audits
- Each compliance auditor and investigator will be required to attend high priority NERC auditor and investigation training
- Texas RE auditors will become qualified in accordance with the NRC-NERC MOU to conduct compliance monitoring of GOs/GOPs with nuclear holdings (per Order No. 706B)
- The number of non-CIP spot checks will be increased by 10% in conjunction with the risk-based approach to auditing
- Modifications to the program will need to be made to support the changes to the CMEP that are in the process of being made
- The compliance investigators will support one significant compliance investigation triggered by system events and eight compliance reviews following lesser events
- Self-reported violations for CIP are expected to surpass those from the non-CIP (693) standards and are estimated to be no more than 24
- The number of self-reports for non-CIP standards will be similar to previous years
- The work required for self certifications is expected to increase as the CIP standards (and other newly applicable standards) are included for 2011
- Significant event analyses are expected to slightly increase, including additional anticipated analyses or investigations for CIP-related events

Technical Feasibility Exceptions (TFEs)

- Texas RE's TFE evaluation and analysis workload will continue at the same level and will not expand in scope
- The TFE program will continue to increase with additional and evolving CIP requirements expanding the scope of acceptance reviews and approval evaluations
- TFE approvals will result in compensating measure validation checks, quarterly reporting tracking and change management

Compliance Enforcement

- The number of possible violations will continue to increase in 2011 as it has in 2010 (8 violations from January – April 2009 and 24 possible violations from January – April 2010)
- The volume of enforcement work for settlements will continue to increase, and the majority of alleged violations will continue to be handled through the settlement process
- Targeted, aggressive enforcement will be used for those matters posing the most risk to the BPS
- One large or two small to medium enforcement matters will be contested
- Texas RE will continue to expend significant time coordinating with NERC and other regional entities to improve consistency in processing violations and applying penalties for Registered Entities
- Texas RE staff will primarily draft and provide additional assistance to NERC regarding Notices of Penalty
- Texas RE will work with NERC to develop new streamlined mechanisms to expedite minor administrative violations

Data Management and Reporting

- The level of compliance and enforcement data required to be tracked and number of reports requiring creation will continue to increase as the volume of audits, investigations, and enforcement actions increases
- Records management efforts will continue and slightly increase as additional audits, investigations, self-certifications, self-reports, and enforcement actions are processed and the volume of records continue to increase – particularly for the new CIP data
- Additional effort will be required for implementation of new document management software during 2011

2011 Goals and Key Deliverables

Organization Registration and Certification

- Continue to register and certify entities and perform Registration and Certification program in accordance with Texas RE procedures and the NERC Rules of Procedure, but improve the timeliness of the registrations and communications with stakeholders
- Continue to work with NERC and other regional entities to improve consistency in performing registration and certification of registered entities
- Perform surveys and analyses to identify all significant non-registered transmission and generation assets of industrial and other large facilities in the ERCOT region
- Efficiently analyze and register new transmission assets planned and constructed as part of the CREZ transmission line project and plan for any required certifications
- Work with the other regional entities and NERC on the NERC functional mapping project

Compliance Monitoring

- Continue to schedule and perform the audit program in accordance with Texas RE procedures and the NERC Rules of Procedure
- Perform formal, in depth, compliance audits on a one-year cycle for the RC/BA function, on a three-year cycle for the TOP and TSP function(s), and on a six-year cycle for all other registered functions
- Implement the anticipated changes to the CMEP
- Schedule and perform an increased number of spot-checks in accordance with Texas RE procedures and the NERC Rules of Procedure

-
- Continue to work with NERC and other regional entities to improve consistency in performing audits of Registered Entities
 - Continue to efficiently process all self-reports to timely either refer possible violations to enforcement or promptly notify the entity if no violation exists
 - Complete event-based inquiries and compliance Investigations in accordance with Texas RE procedures and the NERC Rules of Procedure but in a more timely manner
 - Collaborate with NERC to enhance registered entities understanding of the requirements, capture lessons learned from events analysis and reduce errors in self-reports
 - Efficiently create, communicate, distribute, review, and analyze annual self-certifications for all registered functions

Technical Feasibility Exceptions (TFEs)

- TFEs will be timely evaluated and analyzed
- Approved TFEs will be tracked and validated

Compliance Enforcement

- Review and process or dismiss all possible and alleged violations in a more timely fashion, to enhance visibility of penalties.
- Manage all settlements and contested cases to completion, as efficiently as possible.
- Coordinate with and provide assistance to Legal on settlements, appeals and contested cases
- Continue to review and verify completion of mitigation plans in accordance with the CMEP but in a more timely fashion
- Use targeted, aggressive enforcement for the violations posing the most risk to the BPS
- Work with NERC and other regions to streamline mechanisms to expedite minor, administrative violations and look to gain more discretion to handle the minor violations which pose no threat to the BPS

Data Management and Reporting

- Improve the consistency and timeliness of the tracking of all compliance and enforcement data to enable review by and report creation for compliance and enforcement staff, management, the Board, and NERC
- Continue records management efforts to include additional data and information and improve efficiency of data access and reporting
- Assist Information Technology group with the preparation for and implementation of new document management software

Funding Sources and Requirements — Explanation of Increase (Decrease)

Funding Sources

- Funding received for this activity is through assessment income and fully funds total expenses and fixed asset requirements.

Personnel Expenses

- Headcount is increasing approximately 8.88 FTEs, which brings the total to 30.62 FTEs for this activity. Only 3.0 new positions are requested to accommodate this increase, resulting in increased personnel costs of \$385K. The other 4.8 FTEs are being transferred from Non-statutory activities to accommodate increased Statutory workloads, resulting in increased Statutory cost of \$579K. The other 1.08 FTEs are transferring from other activities within Texas RE to Compliance and Organization Registration and Certification, the increased costs of \$90K are offset by corresponding reductions in other areas. Finally, there is approximately \$220K in merit, promotion, and benefits increases included in the 2011 budget.

Organization Registration and Certification

- Texas RE will require one (1) additional Organization Registration and Certification FTE for 2011 to assist with additional work requirements and to improve efficiency and timeliness of registration processing and communications
 - Significant resources will be required to identify, survey, map, and register, if required, non-registered entity transmission and generation assets, specifically including those of substantial industrial facilities in the region
 - Additional surveys and mapping of the registered entities' functions will be required to ensure no gaps, on an on-going basis
 - Resources will be required in 2011 for the review of, communications with, and registration of the CREZ transmission companies, as well as for planning of potential certification reviews

Compliance Monitoring

- Texas RE will require 6.88 additional FTEs for Compliance Monitoring. While the overall number of non-CIP audits (693) will remain the same, the trend has been that the time required to perform audits has tended to increase with longer assessment periods, additional functions and more complex joint registrations
 - CIP audits will be added to the audit schedule in 2011. The audit group will provide a lead auditor for each audit and a support auditor for the on-site CIP audits. The audit group will schedule and coordinate all the CIP audits
 - The workload associated with compliance review of events and compliance investigations is increasing with NERC's emphasis on expanding this area. Staff and travel increases will allow a larger numbers of evaluations of disturbances and events in a more timely fashion
 - Additional self-reported violations will require additional validation work

Compliance Enforcement

- Texas RE will require one (1) additional FTE for Compliance Enforcement to process the increased NERC Violations in 2011, based upon current violation

trends. The number of violations resulting from audits and self-reports as increased this year and there is an expectation that this trend will also be seen in 2011. Texas RE will also spend additional time processing each NERC violation than assumed in the 2010 budget. An additional 20 hours per violation has been budgeted for 2011. Most entities with alleged violations have requested settlement negotiations. Settlement takes more Texas RE enforcement staff time than the NAVAPS process. Texas RE staff will now primarily draft and provide more assistance regarding the Notices of Penalty. Additional hours will be required to draft disposition documents to support Notice of Penalties.

Meeting Expenses

- Texas RE does not expect to host NERC sponsored, or workgroup meetings in 2011 for Compliance, Organization Registration, and Certification activities, resulting in a reduction in budget of \$4K year-over-year.
- Travel will increase for Compliance, Organization Registration, and Certification activities. There is approximately \$68K in increased travel related to CIP audits. This is the first year with significant CIP audit activity in Texas RE's region. The remaining increase of \$22K is associated with longer duration onsite audits, as well as increased participation at NERC sponsored meetings, workgroups and training.

Operating Expenses

- Consultants and contracts reflect approximately \$257K for hosting and maintenance of compliance applications and recruitment. In 2010, these costs were included as part of professional services.
- Office costs are increasing \$2K year-over-year related to additional professional dues, audit supplies, and telephone expenses.
- Professional services in 2010 included the abovementioned hosting and maintenance of compliance applications are being reclassified to consultants and contracts in 2011. The expenses budgeted in professional services, \$295K for 2011, are primarily outside legal expenses related to enforcement and registration activities.
- In 2010, miscellaneous expenses included dues and training. In 2011, dues have been reclassified to office costs, and training is being reclassified as part of employee benefits.
- Depreciation expense attributed to the compliance applications and additional enhancements are causing the depreciation expense to increase \$43K year-over-year.

Indirect Expenses

- The indirect expenses for 2011 are budgeted at \$2,285K, which reflects a decrease of \$125K year-over-year due to lower administrative services costs. The lower costs for administrative services are attributed to non-recurring start-up costs paid in 2010.

Other Non-Operating Expenses

- N/A

Fixed Asset Additions

- There are capital costs for software revisions to compliance applications, such as the compliance portal that are being reflected under this activity.

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 2011 business plan are shown in the table below.

Statement of Activities and Capital Expenditures					
2010 Budget & Projection, and 2011 Budget					
Compliance and Organization Registration and Certification					
	2010 Budget	2010 Projection	Variance 2010 Projection v 2010 Budget Over(Under)	2011 Budget	Variance 2011 Budget v 2010 Budget Over(Under)
Funding					
Texas RE Funding					
Texas RE Assessments	\$ 6,746,229	\$ 6,746,229	\$ -	\$ 7,137,907	\$ 391,678
Penalty Sanctions	-	-	-	-	-
Total Texas RE Funding	<u>\$ 6,746,229</u>	<u>\$ 6,746,229</u>	<u>\$ -</u>	<u>\$ 7,137,907</u>	<u>\$ 391,678</u>
Membership Dues	-	-	-	-	-
Federal Grants	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	<u>\$ 6,746,229</u>	<u>\$ 6,746,229</u>	<u>\$ -</u>	<u>\$ 7,137,907</u>	<u>\$ 391,678</u>
Expenses					
Personnel Expenses					
Salaries	\$ 2,037,418	\$ 1,855,130	\$ (182,288)	\$ 2,896,327	\$ 858,910
Payroll Taxes	161,372	150,533	(10,839)	256,174	94,802
Benefits	221,580	205,272	(16,308)	411,234	189,654
Retirement Costs	289,434	272,907	(16,527)	419,967	130,534
Total Personnel Expenses	<u>\$ 2,709,803</u>	<u>\$ 2,483,841</u>	<u>\$ (225,962)</u>	<u>\$ 3,983,703</u>	<u>\$ 1,273,900</u>
Meeting Expenses					
Meetings	\$ 4,000	\$ 3,144	\$ (856)	\$ -	\$ (4,000)
Travel	154,664	137,770	(16,894)	245,078	90,413
Conference Calls	-	-	-	-	-
Total Meeting Expenses	<u>\$ 158,664</u>	<u>\$ 140,914</u>	<u>\$ (17,750)</u>	<u>\$ 245,078</u>	<u>\$ 86,413</u>
Operating Expenses					
Consultants & Contracts	\$ -	\$ -	\$ -	\$ 256,957	\$ 256,957
Office Rent	-	-	-	-	-
Office Costs	12,062	12,062	-	14,480	2,418
Professional Services	428,660	428,660	-	294,500	(134,160)
Miscellaneous	15,561	15,561	-	-	(15,561)
Depreciation	141,107	141,107	-	183,750	42,643
Total Operating Expenses	<u>\$ 597,389</u>	<u>\$ 597,389</u>	<u>\$ -</u>	<u>\$ 749,687</u>	<u>\$ 152,297</u>
Total Direct Expenses	<u>\$ 3,465,857</u>	<u>\$ 3,222,144</u>	<u>\$ (243,712)</u>	<u>\$ 4,978,467</u>	<u>\$ 1,512,611</u>
Indirect Expenses	<u>\$ 2,409,652</u>	<u>\$ 2,409,652</u>	<u>\$ -</u>	<u>\$ 2,285,130</u>	<u>\$ (124,522)</u>
Other Non-Operating Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Expenses	<u>\$ 5,875,509</u>	<u>\$ 5,631,796</u>	<u>\$ (243,712)</u>	<u>\$ 7,263,597</u>	<u>\$ 1,388,089</u>
Change in Assets	<u>\$ 870,720</u>	<u>\$ 1,114,433</u>	<u>\$ 243,712</u>	<u>\$ (125,691)</u>	<u>\$ (996,411)</u>
Fixed Assets					
Depreciation	(141,107)	(141,107)	-	(183,750)	(42,643)
Computer & Software CapEx	374,237	427,753	53,516	185,000	(189,237)
Furniture & Fixtures CapEx	15,215	17,391	2,176	-	(15,215)
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	0
(Incr)Dec in Fixed Assets	<u>\$ (248,345)</u>	<u>\$ (304,036)</u>	<u>\$ (55,692)</u>	<u>\$ (1,250)</u>	<u>\$ 247,095</u>
Allocation of Fixed Assets	\$ (622,375)	\$ (622,375)	-	126,941	749,316
Change in Fixed Assets	<u>(870,720)</u>	<u>(926,411)</u>	<u>(55,692)</u>	<u>125,691</u>	<u>996,411</u>
TOTAL CHANGE IN NET ASSETS	<u>\$ -</u>	<u>\$ 188,021</u>	<u>\$ 188,021</u>	<u>\$ 0</u>	<u>\$ (0)</u>

Reliability Assessment and Performance Analysis Program

Reliability Assessments and Performance Analysis (in whole dollars)			
	2010 Budget	2011 Budget	Increase (Decrease)
Total FTEs	2.44	2.72	0.28
Direct Expenses	\$ 290,095	\$ 448,627	\$ 158,532
Indirect Expenses	\$ 270,464	\$ 202,990	\$ (67,474)
Inc(Dec) in Fixed Assets	\$ 69,857	\$ (11,276)	\$ (81,133)
Total Funding Requirement	\$ 630,416	\$ 640,340	\$ 9,924

Program Scope and Functional Description

Texas RE's Reliability Assessment and Performance Analysis ("RAPA") program provides input to seasonal and long-term reliability assessments for the adequacy of resources and operating reliability of the BPS in the ERCOT Region, both existing and planned. In addition to support for these assessments, Texas RE participates in work to evaluate risk and severity from reliability performance, measure progress in improving current reliability and track leading indicators of future reliability. This program will ensure that data is collected from registered entities, reviewed, analyzed, and provided as input to NERC's detailed databases measuring the ongoing reliability performance of generation, transmission and demand response. RAPA also identifies and analyzes key issues that may affect reliability, such as market practices, legislation, regulation, technology developments, high-impact low frequency ("HILF") events, industry trends, or proposed public policy measures. Special reliability assessments on the effects to reliability of the BPS from specific issues or situations are developed based on an industry-based risk assessment and emerging initiatives.

2011 Key Assumptions

Texas RE RAPA program will:

- Provide independent reviews of reliability assessments for the ERCOT Region and assist NERC in its overall development of the long-term, winter and summer assessments, along with the post-seasonal reviews and probabilistic risk study
- Along with other Regional Entities, gather data or perform analysis in support of federal initiatives related to the stimulus package, critical infrastructure protection to include high impact/low frequency (HILF), climate change, environmental regulations, and/or renewable energy initiatives
- Support the Transmission Adequacy Data System ("TADS") along with the new Demand response data system ("DADS") collection, which is mandatory in 2011
- Participate in metric development, collection, and analysis with industry stakeholders through the Reliability Metrics Working Group ("RMWG")
- Support for two special reliability assessment initiatives in 2011 under NERC direction
- Review and analyze system events and disturbances for lessons learned and system trends

2011 Goals and Key Deliverables

- Provide ERCOT regional input to NERC reliability assessment reports:

1. One 10-year long-term reliability assessment
 2. Two pre-seasonal assessments: summer and winter
 3. Two post-seasonal operational assessments: winter and summer
 4. One annual risk/severity and reliability metrics report, including overall system risk and violation risk analysis
 5. Additional reports for special assessments addressing key reliability issues, industry reliability concepts and emerging issues
- Evaluate, track, and assess severity/risk and reliability metrics and risk indices – including the maintenance of online reliability metrics and risk indices.
 - Administer the Transmission Availability Data System (TADS) and launch the Demand response Availability Data System (DADS) within the ERCOT Region
 - Represent the ERCOT Region on a reliability assessment and performance analysis team to review Regional reliability assessment processes, criteria, and methods improving consistency and leveraging practices
 - Participate in NERC and Regional working groups and committees to monitor and provide input on Regional planning activities
 - Timely review and analyze all events and system disturbances for lessons learned and system trends, including but not limited to Department of Energy and NERC reportable events, Emergency Electric Alert (EEA) implementation, special protection system activation, equipment outages and failures, underfrequency and undervoltage relay operation, and any failure to meet NERC requirements related to frequency control or transmission security

Funding Sources and Requirements — Explanation of Increase (Decrease)

Funding Sources

- Funding received for this activity is through assessment income and fully funds total expenses and fixed asset requirements.

Personnel Expenses

- Reliability Assessments and Performance Analysis headcount is increasing by .28 FTEs. The additional .28 FTEs are needed to facilitate more independent Texas RE involvement in regional reliability assessment development along with NERC's plans for additional data collection, special assessments and reliability metrics. Transfers from within Texas RE are filling these increased FTEs in this activity. The increase is resulting in a budget impact to the Reliability Assessments and Performance Analysis activity personnel expenses of \$57K. The net impact to Texas RE's overall budget is neutral because of this shift; there are corresponding decreases in other areas to offset this increase. The composition and levels of staff have changed over the 2010 budget and so there is approximately \$70K in increased expenses attributed to that change. Finally, there is \$24K in merit and benefits increases in the proposed 2011 budget.

Meeting Expenses

- Travel will increase for Reliability Assessments and Performance Analysis activities. The expanded responsibilities of this activity are necessitating the increase in the travel budget by \$8K. This is to accommodate the travel for RMWG and related committees and stakeholder meetings, increased workflow requirements, as well as the participation at NERC sponsored meetings, workgroups and training.

Operating Expenses

- In 2010, miscellaneous expenses included training costs. In 2011, training is being reclassified as part of employee benefits and therefore that expense is reflected in a different area.

Indirect Expenses

- The indirect expenses for 2011 are budgeted at \$203K, which reflects a decrease of \$67K year-over-year due to lower administrative services costs. The lower costs for administrative services are attributed to non-recurring start-up costs paid in 2010.

Other Non-Operating Expenses

- N/A

Fixed Asset Additions

- There is only an allocation of fixed assets for corporate applications associated with this activity.

Reliability Assessment and Performance Analysis Program

Funding sources and related expenses for the reliability assessment and performance analysis section of the 2011 business plan are shown in the table below.

Statement of Activities and Capital Expenditures					
2010 Budget & Projection, and 2011 Budget					
Reliability Assessment and Performance Analysis					
	2010 Budget	2010 Projection	Variance 2010 Projection v 2010 Budget Over(Under)	2011 Budget	Variance 2011 Budget v 2010 Budget Over(Under)
Funding					
Texas RE Funding					
Texas RE Assessments	\$ 630,416	\$ 630,416	\$ -	\$ 640,340	\$ 9,924
Penalty Sanctions	\$ -	\$ -	\$ -	\$ -	\$ -
Total Texas RE Funding	\$ 630,416	\$ 630,416	\$ -	\$ 640,340	\$ 9,924
Membership Dues	-	-	-	-	-
Federal Grants	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 630,416	\$ 630,416	\$ -	\$ 640,340	\$ 9,924
Expenses					
Personnel Expenses					
Salaries	\$ 285,004	11,400	-	-	-
Payroll Taxes	\$ 217,004	\$ 197,588	\$ (19,415)	\$ 322,890	\$ 105,886
Benefits	17,187	16,032	(1,154)	28,734	11,547
Retirement Costs	23,632	21,892	(1,739)	41,498	17,867
	30,793	29,035	(1,758)	46,819	16,026
Total Personnel Expenses	\$ 288,615	\$ 264,548	\$ (24,067)	\$ 439,941	\$ 151,326
Meeting Expenses					
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	806	718	(88)	8,685	7,879
Conference Calls	-	-	-	-	-
Total Meeting Expenses	\$ 806	\$ 718	\$ (88)	\$ 8,685	\$ 7,879
Operating Expenses					
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-	-	-	-	-
Office Costs	-	-	-	-	-
Professional Services	-	-	-	-	-
Miscellaneous	673	673	-	-	(673)
Depreciation	-	-	-	-	-
Total Operating Expenses	\$ 673	\$ 673	\$ -	\$ -	\$ (673)
Total Direct Expenses	\$ 290,095	\$ 265,939	\$ (24,155)	\$ 448,627	\$ 158,532
Indirect Expenses	\$ 270,464	\$ 270,464	\$ -	\$ 202,990	\$ (67,474)
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 560,559	\$ 536,404	\$ (24,155)	\$ 651,617	\$ 91,057
Change in Assets	\$ 69,857	\$ 94,012	\$ 24,155	\$ (11,276)	\$ (81,133)
Fixed Assets					
Depreciation	-	-	-	-	-
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
Allocation of Fixed Assets	\$ (69,857)	\$ (69,857)	\$ -	11,276	81,133
Change in Fixed Assets	(69,857)	(69,857)	-	11,276	81,133
TOTAL CHANGE IN NET ASSETS	\$ -	\$ 24,155	\$ 24,155	\$ 0	\$ (0)

Training, Education, and Operator Certification Program

Training, Education and Operator Certification (in whole dollars)			
	2010 Budget	2011 Budget	Increase (Decrease)
Total FTEs	0.97	1.84	0.87
Direct Expenses	\$ 328,735	\$ 425,038	\$ 96,303
Indirect Expenses	\$ 107,918	\$ 137,317	\$ 29,399
Inc(Dec) in Fixed Assets	\$ 27,874	\$ (7,628)	\$ (35,502)
Total Funding Requirement	\$ 464,526	\$ 554,727	\$ 90,200

Program Scope and Functional Description

The Texas RE Training, Education, and Operator Certification program provides the education and training necessary to understand and operate the BPS, in accordance with NERC ROP Section 900. In 2011, the Texas RE Training, Education, and Operator Certification program will develop materials for and hold:

- Two (2) full-day Standards and Compliance workshops;
- Two (2) partial day workshops focusing on CIP standards compliance

In addition to the above workshops, Texas RE will also continue to coordinate and facilitate six (6) regular sessions of the Texas RE Operations Training Seminar in 2011. The purpose of this seminar is to refresh the understanding of operational fundamentals; introduce changes occurring to operational interfaces, equipment, systems, and processes; address the impact of market processes on system performance and operation; provide an update on compliance and address emerging compliance initiatives; and address emerging issues in performance and system reliability. Texas RE will also continue to administer the System Operator testing process and will coordinate with ERCOT ISO on its revision of the ERCOT Fundamentals Training Manual.

The Texas RE Training staff will continue to publish a bi-monthly newsletter, which will include useful compliance and standards-related information, updates about Texas RE and NERC activities, training, procedures, templates, forms, and current reliability-related topics.

Texas RE staff will continue to participate on selected industry sponsored seminars and panels to provide as much information to the industry as possible as well as to receive feedback.

2011 Key Assumptions

In 2011, the Texas RE Training, Education, and Operator Certification program assumes the following:

- Texas RE will develop and deliver two (2) full day Standards and Compliance workshops
- Texas RE will develop and deliver two (2) partial day CIP standards Compliance workshops

- Texas RE will coordinate and facilitate six sessions of the Texas RE Operations Training Seminar
- The majority of the external expenses (but not employee time) incurred for the workshops and the Operations Training Seminar will be reimbursed through fees paid by workshop and seminar attendees
- Texas RE will continue to oversee and facilitate the System Operator Certification testing
- The Training, Education, and Operator Certification program will remain a fully Statutory function
- Work with compliance staff to create teachable lessons-learned to incorporate into compliance workshops
- One Training employee will participate on the NERC-Regional Entity Training and Education Group

2011 Goals and Key Deliverables

1. Develop two (2) full-day high quality 2011 Standards and Compliance workshops (approximately 125 stakeholders each)
2. Develop and deliver two (2) partial-day quality CIP workshops
3. Coordinate and host six (6) sessions of the four-day Texas RE Operations Training Seminar
4. Create and publish a bi-monthly newsletter to update and educate stakeholders on compliance and standards information
5. Continue to oversee and facilitate the System Operator Certification testing
6. Participate on the NERC-Regional Entity Training and Education Group
7. Maintain a database for tracking seminar and workshop participants and feedback and use this feedback to continue to improve on future seminars and workshops

Funding Sources and Requirements — Explanation of Increase (Decrease)

Funding Sources

- The majority of funding received (63%) for this activity is through assessment income and fully funds total personnel costs, indirect expenses, and fixed asset requirements.
- The remaining funding (37%) is received from attendance fees associated with the workshops and the Operations Training Seminar. These fees are designed to offset all direct workshop and seminar expenses, excluding the abovementioned categories.

Personnel Expenses

- Headcount is increasing approximately .87 FTEs, which brings the total to 1.84 FTEs for this activity. The .87 FTEs are being transferred from other activities to accommodate increased workloads, resulting in increased cost of \$87K for this activity. The increased personnel expenses for the additional .87 FTEs are offset by corresponding reductions in other areas. Finally, there is approximately \$14K in merit, promotion, and benefits increases included in the 2011 budget.

Meeting Expenses

- Texas RE will need to use outside conference space at an estimated cost of \$30K for all workshops and \$186K for the Operations Training Seminar; however, these costs will be reimbursed to Texas RE through fees paid by attendees.
- There is a negligible amount of travel expense included in the budget for employee mileage to and from the seminar and workshops.

Operating Expenses

- In 2010, miscellaneous expenses included training costs. In 2011, this category of expense is being reclassified as part of employee benefits and therefore that expense is reflected in a different area.

Indirect Expenses

- The indirect expenses for 2011 are budgeted at \$137K, which reflects an increase of \$29K year-over-year. This activity is attracting additional indirect expense due to the increase in personnel. This is despite an overall reduction to the indirect expense pool for 2011.

Other Non-Operating Expenses

- N/A

Fixed Asset Additions

- There is only an allocation of fixed assets for corporate applications associated with this activity.

Training, Education, and Operator Certification Program

Funding sources and related expenses for the training, education, and operator certification section of the 2011 business plan are shown in the table below.

Statement of Activities and Capital Expenditures					
2010 Budget & Projection, and 2011 Budget					
Training and Education					
	2010 Budget	2010 Projection	Variance 2010 Projection v 2010 Budget Over(Under)	2011 Budget 0.38847971	Variance 2011 Budget v 2010 Budget Over(Under)
Funding					
Texas RE Funding					
Texas RE Assessments	\$ 284,526	\$ 284,526	\$ -	\$ 339,227	\$ 54,700
Penalty Sanctions	-	-	-	-	-
Total Texas RE Funding	\$ 284,526	\$ 284,526	\$ -	\$ 339,227	\$ 54,700
Membership Dues	-	-	-	-	-
Federal Grants	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	180,000	180,000	-	215,500	35,500
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 464,526	\$ 464,526	\$ -	\$ 554,727	\$ 90,200
Expenses					
Personnel Expenses					
Salaries	\$ 81,122	\$ 73,864	\$ (7,258)	\$ 153,717	\$ 72,595
Payroll Taxes	6,425	5,993	(432)	13,631	7,206
Benefits	8,834	8,184	(650)	19,599	10,765
Retirement Costs	11,511	10,854	(657)	22,289	10,778
Total Personnel Expenses	\$ 107,893	\$ 98,896	\$ (8,997)	\$ 209,236	\$ 101,344
Meeting Expenses					
Meetings	\$ 220,000	\$ 172,898	\$ (47,102)	\$ 215,500	\$ (4,500)
Travel	-	-	-	301	301
Conference Calls	-	-	-	-	-
Total Meeting Expenses	\$ 220,000	\$ 172,898	\$ (47,102)	\$ 215,801	\$ (4,199)
Operating Expenses					
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-	-	-	-	-
Office Costs	-	-	-	-	-
Professional Services	-	-	-	-	-
Miscellaneous	842	842	-	-	(842)
Depreciation	-	-	-	-	-
Total Operating Expenses	\$ 842	\$ 842	\$ -	\$ -	\$ (842)
Total Direct Expenses	\$ 328,735	\$ 272,635	\$ (56,099)	\$ 425,038	\$ 96,303
Indirect Expenses	\$ 107,918	\$ 107,918	\$ -	\$ 137,317	\$ 29,399
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 436,653	\$ 380,554	\$ (56,099)	\$ 562,355	\$ 125,702
Change in Assets	\$ 27,874	\$ 83,973	\$ 56,099	\$ (7,628)	\$ (35,502)
Fixed Assets					
Depreciation	-	-	-	-	-
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
Allocation of Fixed Assets	\$ (27,874)	\$ (27,874)	-	7,628	\$ 35,502
Change in Fixed Assets	(27,874)	(27,874)	-	7,628	35,502
TOTAL CHANGE IN NET ASSETS	\$ -	\$ 56,099	\$ 56,099	\$ 0	\$ -

Situation Awareness and Infrastructure Security Program

Situation Awareness and Infrastructure Security			
(in whole dollars)			
	2010 Budget	2011 Budget	Increase (Decrease)
Total FTEs	3.03	2.49	(0.54)
Direct Expenses	\$ 391,907	\$ 326,184	\$ (65,723)
Indirect Expenses	\$ 335,309	\$ 185,825	\$ (149,484)
Inc(Dec) in Fixed Assets	\$ 86,605	\$ (10,323)	\$ (96,928)
Total Funding Requirement	\$ 813,822	\$ 501,687	\$ (312,135)

Program Scope and Functional Description

There are two key components of this program: (1) assessment of the current condition of and threats to the BPS and development and application of situational awareness tools for the BPS; and (2) maintenance of CIP subject matter expertise for the Texas RE compliance, enforcement, technical feasibility evaluation (TFE), and training programs, and Texas RE's internal CIP compliance; and participation in NERC-led efforts to develop industry alerts and guidance to promote awareness in support of Critical Infrastructure Protection efforts and NERC's role as the Electricity Sector – Information Sharing and Analysis Center.

Texas RE will develop an education and implementation program to successfully implement version 4 of the CIP Standards.

CIP-002-2/3 R1.0 and R2.0 sufficiency reviews are being planned for the 2011 Compliance Monitoring activities, which will require Texas RE system expertise in an effort to enhance learning and prepare for the version 4 bulk power systems Cyber System identification.

2011 Key Assumptions

- Expansion of the Situation Awareness for FERC, NERC and the Regional Entities ("SAFNR") tool in 2011. Primary funding and effort will be the responsibility of the ERCOT ISO, the Reliability Coordinator in this Region, with overall project management by NERC.
- More rigorous utilization and reporting associated with Situation Awareness
- Texas RE will achieve full CIP staffing of 4 staff plus a CIP manager by third quarter 2010.
-
- CIP event analyses will not exceed 10 for the year
- CIP staff will develop an education and implementation program to successfully implement version 4 of the CIP Standards and improve Texas RE system expertise in an effort to enhance learning and prepare for the version 4 bulk power systems Cyber System identification
- CIP expertise will be required to assist with CIP audits, CIP-002-2/3 R1.0 and R2.0 sufficiency reviews by the CMEP staff, and other compliance monitoring and enforcement activities
- 1 CIP employee will be trained for nuclear CIP (NCIP) audits in 2011.

- CIP and performance analysis staff will complete required NERC High Priority Audit Training in 2011

2011 Goals and Key Deliverables

- Develop the SAFNR system, train Texas RE personnel on its use and coordinate its application with the ERCOT ISO, NERC and FERC.
- Assist NERC and Regional staff in conducting drills meant to improve coordination during wide-area system disturbances
- Aid NERC staff in producing content and delivering “lessons learned” outreach to registered entities in 2011
- Provide expertise and assist on all CIP audits, event analysis, investigations, and enforcement activities Manage the TFE program and timely process TFEs per the requirements
- Participate in the NERC CIP conference calls and meetings to advance national coordination and cooperation and improve CIP processes and systems
- Attend NERC CIP training sessions
- Train 1 employee for NCIP
- Texas RE will provide support to NERC in the creation of the NCIP program.
- CIP self certifications will be completed per the NERC schedule.
- Training program will be developed and each CIP staff member will complete at least one training class in 2011.

Funding Sources and Requirements — Explanation of Increase (Decrease)**Funding Sources**

- Funding received for this activity is through assessment income and fully funds total expenses and fixed asset requirements.

Personnel Expenses

- Situation Awareness and Infrastructure Security headcount is decreasing by .54 FTEs. Transfers away from this activity are resulting in a net decrease to personnel expenses \$62K. The transfers are not expected to impact workflow and the following items are expected to be accomplished including the normal activities of this area:
 - Incremental increases in personnel to assist NERC and the ERCOT ISO in coordinating SAFNR system development and to begin enhanced use of the system and
 - No increase in CIP personnel is planned for 2011.

Meeting Expenses

- Travel will decrease \$3K for Situation Awareness and Infrastructure Security. CIP related travel expenses are located in the Compliance area and this activity is not expected to have significant travel in 2011.

Operating Expenses

- In 2010, miscellaneous expenses included training costs. In 2011, training is being reclassified as part of employee benefits and therefore that expense is reflected in a different area.

Indirect Expenses

- The indirect expenses for 2011 are budgeted at \$192K, which reflects a decrease of \$143K year-over-year due to lower administrative services costs and fewer personnel, which is the basis of the allocation. The lower costs for administrative services are attributed to non-recurring start-up costs paid in 2010.

Other Non-Operating Expenses

- N/A

Fixed Asset Additions

- There is only an allocation of fixed assets for corporate applications associated with this activity.

Situation Awareness and Infrastructure Security Program

Funding sources and related expenses for the situation awareness and infrastructure security section of the 2011 business plan are shown in the table below.

Statement of Activities and Capital Expenditures					
2010 Budget & Projection, and 2011 Budget					
Situation Awareness and Infrastructure Security					
	2010 Budget	2010 Projection	Variance 2010 Projection v 2010 Budget Over(Under)	2011 Budget	Variance 2011 Budget v 2010 Budget Over(Under)
Funding					
Texas RE Funding					
Texas RE Assessments	\$ 813,822	\$ 813,822	\$ -	\$ 501,687	\$ (312,135)
Penalty Sanctions	-	-	-	-	-
Total Texas RE Funding	\$ 813,822	\$ 813,822	\$ -	\$ 501,687	\$ (312,135)
Membership Dues	-	-	-	-	-
Federal Grants	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 813,822	\$ 813,822	\$ -	\$ 501,687	\$ (312,135)
Expenses					
Personnel Expenses					
Salaries	\$ 291,164	\$ 265,113	\$ (26,050)	\$ 238,655	\$ (52,508)
Payroll Taxes	23,060	21,511	(1,549)	21,227	(1,833)
Benefits	31,708	29,374	(2,334)	30,429	(1,279)
Retirement Costs	41,316	38,957	(2,359)	34,605	(6,711)
Total Personnel Expenses	\$ 387,247	\$ 354,955	\$ (32,292)	\$ 324,916	\$ (62,332)
Meeting Expenses					
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	4,260	3,795	(465)	1,268	(2,992)
Conference Calls	-	-	-	-	-
Total Meeting Expenses	\$ 4,260	\$ 3,795	\$ (465)	\$ 1,268	\$ (2,992)
Operating Expenses					
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-	-	-	-	-
Office Costs	-	-	-	-	-
Professional Services	-	-	-	-	-
Miscellaneous	400	400	-	-	(400)
Depreciation	-	-	-	-	-
Total Operating Expenses	\$ 400	\$ 400	\$ -	\$ -	\$ (400)
Total Direct Expenses	\$ 391,907	\$ 359,150	\$ (32,758)	\$ 326,184	\$ (65,723)
Indirect Expenses	\$ 335,309	\$ 335,309	\$ -	\$ 185,825	\$ (149,484)
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 727,217	\$ 694,459	\$ (32,758)	\$ 512,010	\$ (215,207)
Change in Assets	\$ 86,605	\$ 119,363	\$ 32,758	\$ (10,323)	\$ (96,928)
Fixed Assets					
Depreciation	-	-	-	-	-
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
Allocation of Fixed Assets	\$ (86,605)	\$ (86,605)	-	10,323	96,928
Change in Fixed Assets	(86,605)	(86,605)	-	10,323	96,928
TOTAL CHANGE IN NET ASSETS	\$ -	\$ 32,758	\$ 32,758	\$ 0	\$ 0

Administrative Services

Administrative Services (in whole dollars)			
	2010 Budget	2011 Budget	Increase (Decrease)
Total FTEs	9.26	9.36	0.10
Expenses	\$ (0)	\$ -	\$ 0
Inc(Dec) in Fixed Assets	\$ -	\$ -	\$ -
Working Capital Requirement	\$ 136,947	\$ 117,223	\$ (19,723)

Methodology for Allocation of Administrative Services Expenses to Programs

- Texas RE allocates its indirect expenses to the functional areas via a headcount allocation. Each direct activity receives a pro-rata allocation of expense based on its FTEs compared to total FTEs.
- Texas RE maintains the Fines and Penalty money collected and is used to reduce the amount of the assessments to the region.
- Texas RE also makes adjustments to its cash reserve using the General and Administrative (G&A) function.
- Fixed assets that benefit the entire corporation that are not specific to any one activity/function will be allocated based on headcount to all of the direct activities.

Technical Committees and Member Forums

Technical Committees and Member Forums (in whole dollars)			
	2010 Budget	2011 Budget	Increase (Decrease)
Total FTEs			
Expenses			
Inc(Dec) in Fixed Assets			
Working Capital Requirement			

Program Scope and Functional Description

Texas RE staff will provide limited administrative support for the Member Representatives Committee (MRC) and other membership activities, including the scheduling and coordination of meetings, distribution and posting of meeting materials and minutes, maintenance of applicable areas of the Texas RE website, and facilitating of membership announcements and communications. This position is budgeted under G&A to protect the confidentiality of salary for this FTE.

2011 Key Assumptions

- Texas RE will hold six MRC meetings and one membership meeting per year
- The MRC will not have significant working groups or subcommittees in 2011
- Support of the RSC will be from Texas RE Reliability Standards personnel
- Membership meetings will only require outside conference meeting space for a maximum of one meeting per year

2011 Goals and Key Deliverables

The Goal of the technical committee and member forums program is to coordinate membership registration, voting, and communications, and to provide and facilitate a mechanism for owners, users, and operators of the BPS to communicate, coordinate best practices, and provide input to Texas RE staff and the Independent Directors of the Texas RE Board of Directors.

Funding Sources and Requirements — Explanation of Increase (Decrease)

Funding Sources

- In 2010, Texas RE funded the support for these activities in the General & Administrative budget.

Personnel Expenses

- There is approximately .97 FTEs for this activity; however, for salary confidentiality purposes the personnel expenses are being accumulated under the G&A activity.

Meeting Expenses

- The meeting expenses associated with membership and committees are reflected under the G&A activity as well. These are reflected there for matching purposes. The revenue and expenses are being contained to one area that will allow appropriate accounting.

Operating Expenses

- There are no significant operating expenses for this area.

Indirect Expenses

- This is an indirect activity and therefore does not receive an allocation of indirect expense. This activity full allocates through the G&A activity allocation.

Other Non-Operating Expenses

- N/A

Fixed Asset Additions

- N/A

Technical Committees and Member Forums

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

Statement of Activities and Capital Expenditures					
2010 Budget & Projection, and 2011 Budget					
Technical Committees and Member Forums					
	2010 Budget	2010 Projection	Variance 2010 Projection v 2010 Budget Over(Under)	2011 Budget	Variance 2011 Budget v 2010 Budget Over(Under)
Funding					
Texas RE Funding					
Texas RE Assessments	\$ -	\$ -	\$ -	\$ -	\$ -
Penalty Sanctions	-	-	-	-	-
Total Texas RE Funding	\$ -	\$ -	\$ -	\$ -	\$ -
Membership Dues	-	-	-	-	-
Federal Grants	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ -	\$ -	\$ -	\$ -	\$ -
Expenses					
Personnel Expenses					
Salaries	\$ -	\$ -	\$ -	\$ -	\$ -
Payroll Taxes	-	-	-	-	-
Benefits	-	-	-	-	-
Retirement Costs	-	-	-	-	-
Total Personnel Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Meeting Expenses					
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	-	-	-	-	-
Conference Calls	-	-	-	-	-
Total Meeting Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Operating Expenses					
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-	-	-	-	-
Office Costs	-	-	-	-	-
Professional Services	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Depreciation	-	-	-	-	-
Total Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Direct Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Indirect Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Change in Assets	\$ -	\$ -	\$ -	\$ -	\$ -
Fixed Assets					
Depreciation	-	-	-	-	-
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
Allocation of Fixed Assets	\$ -	\$ -	-	-	-
Change in Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
TOTAL CHANGE IN NET ASSETS	\$ -	\$ -	\$ -	\$ -	\$ -

General and Administrative

General and Administrative (in whole dollars)			
	2010 Budget	2011 Budget	Increase (Decrease)
Total FTEs	1.1	0.7	(0.3)
Expenses	\$ (0)	\$ -	\$ 0
Inc(Dec) in Fixed Assets	\$ -	\$ -	\$ -
Working Capital Requirement	\$ 136,947	\$ 117,223	\$ (19,723)

Program Scope and Functional Description

This activity includes the President and CEO who carries on the general affairs of the Texas RE. The CEO is independent of any registered entity and reports exclusively to the Texas RE Board of Directors. The CEO is responsible for:

1. Overseeing and managing the activities of Texas RE.
2. Making final decisions with respect to non-contested enforcement related to compliance actions for violations of reliability standards.
3. Making employment-related decisions for all employees of Texas RE.
4. Making an annual report and periodic reports to Texas RE's Board concerning the activities and expenditures of Texas RE.
5. Ensuring that Texas RE files all required reports with NERC.
6. 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).
7. Retaining or terminating outside counsel or other advisors as deemed appropriate.
8. Performing such other duties as may be determined from time to time by Texas RE's Board, for the benefit of the Texas RE.

2011 Key Assumptions

- Texas RE will perform all Statutory activities in the ERCOT region as the regional entity.
- There will be a small portion of Non-statutory related work required to finalize and assist the PUCT with wrapping-up its monitoring requirements.
- Texas RE will be a separate corporation that is not associated with nor affiliated with ERCOT ISO and does not receive any administrative services from ERCOT ISO.
- Texas RE total staff will increase from 47 staff to 50 (40.5 Statutory to 49.0 Statutory, and 6.5 Non-statutory to 1.0 Non-Statutory).
- Where possible, all appropriate direct program expenses will be direct costs to the respective program and function. Only corporate services expenses and personnel will remain in administrative services.
- Members Forum FTEs and expenses are included within this activity due to compensation confidentiality for employees and because Members forum revenue is recorded within the G&A activity. Due to these items being included within, there is no need to break the operating expenses out into the Members Forum activity.

2011 Goals and Key Deliverables

1. Communicate and maintain effective relationships with the Board, industry, regulators, and other stakeholders.

2. Ensure that the new corporation is appropriately staffed and managed to maximize stakeholder value as well as to maintain independence.
3. Effectively manage the NERC Compliance Monitoring and Enforcement Program.
4. Manage Texas RE's Standards Development Process.
5. Establish key performance indicators and benchmarks for Texas RE operations.

Funding Sources and Requirements — Explanation of Increase (Decrease)

Funding Sources

- Indirect program costs are allocated to the direct programs.
- Texas RE is expecting to receive \$28K in membership dues in 2011. These dues are used to support the member processes and activities within Texas RE.
- Additionally, Texas RE is reflecting Fines and Penalties expected to be collected before June 30, 2010 of \$20K, which is being used to lower assessments in the region.
- Finally, Texas RE is expecting to earn less than \$1K in interest income that will be used to further reduce assessments in the region.

Personnel Expenses

- In 2010, there were personnel expenses in the other indirect activities that were accumulated under the G&A activity to avoid identifying individual employee compensation. This is the reason for the \$1,112K decrease in personnel costs. An External Relations Manager position was added in June 2010 (which position was not included in the 2010 budget), to support the four new Independent Directors and to provide governmental relations support. The HR Manager's salary and benefits are being reflected under G&A to avoid releasing sensitive information about one individual's salary to the broader public.

Meeting Expenses

- The annual membership meeting cost is being included as a meeting expense under G&A. This is \$8K and is paid for using the membership dues collected. The balance of the expense \$5K is attributed to hosting meetings at Texas RE offices for NERC, workgroup, or employee purposes.
- Travel is increasing \$27K due to added Board related travel expenses included under the G&A budget.

Operating Expenses

- Consultant and contracts in 2010 included the MOU charges under ERCOT ISO as well as the Board related expenses. In 2011, due to the chart of accounts change with the new company accounting structure, the Board related costs are being reflected under Professional Services. The MOU costs are no longer applicable with the separation of Texas RE from ERCOT ISO.
- Rent expenses are increasing for two reasons. First, the non-statutory portion of the rent expense is being absorbed into the Statutory activity/area. The amount of rent previously charged would no longer be direct coded to Non-statutory expenses (\$80K). Instead, Non-statutory receives an allocation of indirect expenses based on its pro-rata share of FTEs. The second reason for the increase is attributed to Texas RE procuring additional space for its current staff, growth and meeting space. Texas RE does not have enough space for its proposed 2011 headcount. Additionally, the lease is expected to expire December 31, 2010. Therefore, there are reasons to move to new and larger space that will enable Texas RE to operate effectively.

- Professional services for 2011 reflect an increase in budget of \$146K for the year. This is attributable to the director expenses previously budgeted under consultants and contracts.
- Miscellaneous expenses are decreasing for 2011 by \$1K for expense that is transferred to the benefits category.
- Depreciation is decreasing in G&A due to declining book values of fixed assets recorded within in prior years.

Indirect Expenses

- Indirect program costs are allocated to the direct programs.

Other Non-Operating Expenses

- N/A

Fixed Asset Additions

- The allocation of fixed assets declined due to 2010 being a start-up year with significant capital purchases due to Texas RE start-up.

General and Administrative

Funding sources and related expenses for the general and administrative section of the 2011 business plan are shown in the table below.

Statement of Activities and Capital Expenditures					
2010 Budget & Projection, and 2011 Budget					
General and Administrative					
	2010 Budget	2010 Projection	Variance 2010 Projection v 2010 Budget Over(Under)	2011 Budget	Variance 2011 Budget v 2010 Budget Over(Under)
Funding					
Texas RE Funding					
Texas RE Assessments	\$ 107,947	\$ 107,947	\$ -	\$ 69,123	\$ (38,823)
Penalty Sanctions				20,000	20,000
Total Texas RE Funding	\$ 107,947	\$ 107,947	\$ -	\$ 89,123	\$ (18,823)
Membership Dues	27,000	27,000	-	27,500	500
Federal Grants	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	2,000	2,000	-	600	(1,400)
Miscellaneous	-	-	-	-	-
Total Funding	\$ 136,947	\$ 136,947	\$ -	\$ 117,223	\$ (19,723)
Expenses					
Personnel Expenses					
Salaries	\$ 1,030,345	\$ 938,160	\$ (92,185)	\$ 183,571	\$ (846,774)
Payroll Taxes	80,036	74,660	(5,376)	15,047	(64,989)
Benefits	102,530	94,984	(7,546)	28,875	(73,655)
Retirement Costs	150,918	142,300	(8,617)	24,562	(126,356)
Total Personnel Expenses	\$ 1,363,829	\$ 1,250,104	\$ (113,725)	\$ 252,055	\$ (1,111,774)
Meeting Expenses					
Meetings	\$ 3,600	\$ 2,829	\$ (771)	\$ 13,100	\$ 9,500
Travel	17,158	15,284	(1,874)	44,094	26,937
Conference Calls	-	-	-	-	-
Total Meeting Expenses	\$ 20,758	\$ 18,113	\$ (2,645)	\$ 57,194	\$ 36,437
Operating Expenses					
Consultants & Contracts	\$ 604,483	\$ 604,483	\$ -	\$ 780	\$ (603,703)
Office Rent	363,900	363,900	-	499,000	135,100
Office Costs	28,830	28,830	-	29,145	315
Professional Services	75,300	75,300	-	220,800	145,500
Miscellaneous	1,350	1,350	-	-	(1,350)
Depreciation	146,550	146,550	-	115,952	(30,598)
Total Operating Expenses	\$ 1,220,413	\$ 1,220,413	\$ -	\$ 865,677	\$ (354,735)
Total Direct Expenses	\$ 2,605,000	\$ 2,488,630	\$ (116,370)	\$ 1,174,927	\$ (1,430,073)
Indirect Expenses	\$ (2,605,000)	\$ (2,605,000)		\$ (1,174,927)	\$ 1,430,073
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ (0)	\$ (116,370)	\$ (116,370)	\$ -	\$ 0
Change in Assets	\$ 136,947	\$ 253,316	\$ 116,370	\$ 117,223	\$ (19,723)
Fixed Assets					
Depreciation	(146,550)	(146,550)	-	(115,952)	30,598
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	317,000	317,000	-	-	(317,000)
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	\$ (170,450)	\$ (170,450)	\$ -	\$ 115,952	\$ 286,402
Allocation of Fixed Assets	\$ 170,450	\$ 170,450	-	(115,952)	(286,402)
Change in Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
TOTAL CHANGE IN NET ASSETS	\$ 136,947	\$ 253,316	\$ 116,370	\$ 117,223	\$ (19,723)

Legal and Regulatory

Legal and Regulatory (in whole dollars)			
	2010 Budget	2011 Budget	Increase (Decrease)
Total FTEs	3.2	3.0	(0.2)
Expenses	\$ -	\$ -	\$ -
Inc(Dec) in Fixed Assets	\$ -	\$ -	\$ -
Working Capital Requirement	\$ -	\$ -	\$ -

Program Scope and Functional Description

The Legal and Regulatory area provides legal advice, counsel, and governmental and external relations support to Texas RE management, Board, and employees, on all legal and regulatory matters affecting the organization. The Legal and Regulatory group also oversees (1) corporate membership enrollment, meetings, and voting, (2) Board meetings, minutes, training and other activities, (3) corporate documents and transactions, (4) the work of any outside legal counsel, and (5) the prosecution of any contested enforcement matters. Expenses allocated to this area include: General Counsel, two Corporate Counsel, a paralegal, an External Relations manager, and two administrative support staff; however, a significant portion of the time expended by the Legal and Regulatory staff is expended for and allocated to core activities, including compliance monitoring, enforcement, registration, training, and technical committees.

2011 Key Assumptions

The Legal and Regulatory program makes the following assumptions for 2011:

- The volume of legal work required for corporate governance, personnel, NERC registration, standards development, and compliance will remain at current 2010 rates
- The volume of transactional legal work required by attorneys will slightly reduce in 2011 from the large volume required in mid-2010 for the transition of all information technology and other services from ERCOT ISO, and the assignment of all Texas Regional Entity assets and liabilities to Texas RE, which will allow additional Legal time to be spent supporting the anticipated increased enforcement activities
- The number of enforcement actions will continue to increase, causing the review and advice regarding enforcement matters to also continue to increase
- The volume of legal work required for settlements will continue to increase, with the majority of possible violations handled through the settlement process
- The time expended on each enforcement matter will continue to remain high or slightly increase in 2011, but Texas RE will have only one large or two small contested enforcement hearings
- There will be no significant registration disputes or hearings in 2011 (if any occur, cash reserves might need to be expended)
- Outside counsel may assist in contested enforcement cases, but minimal, if any, outside counsel will be used for corporate, tax, or human resource matters

- Additional Legal and Regulatory time will be spent on governmental and other external relations and communications during 2011, particularly during the 2011 Texas Legislature session, which includes Sunset Review of the PUCT and ERCOT ISO.
- The time spent preparing materials and reports for and supporting Board and Board committee meetings will increase due to the additional Legal and Regulatory time needed for the orientation of and communications with the four new Texas RE Independent Directors
- Texas RE Legal will continue to oversee a corporate ethics and antitrust compliance program, including new hire and annual training for all employees
- Texas RE Legal will prepare and provide new hire and annual safety and sabotage awareness training for all employees
- Texas RE will not be able to continue to routinely use ERCOT ISO conference rooms for its stakeholder and Board meetings at no charge, so it will either need to pay for externally arranged conference facilities or move to offices providing sufficient conference rooms and arranged in a manner to allow for visitor security
- Texas RE will move offices in December 2010 to office space with additional and larger conference rooms for stakeholder and Board meetings, which will require a receptionist function to ensure physical security is maintained for visitors (through escorting visitors and maintaining security badge records)

2011 Goals and Key Deliverables

The Legal and Regulatory program goals and deliverables include:

1. Provide timely useful legal advice to the CEO, the Board, and all program areas
2. Effectively communicate information to the Board and Texas RE members
3. Prepare and provide Board orientation training materials
4. Oversee membership registration and maintain an accurate roster of members
5. Provide training materials to Human Resources for new hire employee ethics, antitrust compliance, security, and sabotage awareness training
6. Conduct annual employee ethics, antitrust compliance, security, and sabotage awareness training for all employees
7. Maintain effective relationships and communications with NERC, FERC, PUCT, and other state and federal representatives
8. Timely file all documents required by NERC or FERC
9. Provide advice and assistance and coordinate with NERC regarding all enforcement program documents
10. Prosecute all contested enforcement matters
11. Provide advice and counsel regarding disputed registration or other matters
12. Review and provide advice regarding all regulatory filings
13. Provide advice and oversee risk management and insurance programs
14. Negotiate and prepare or approve all contracts

Funding Sources and Requirements — Explanation of Increase (Decrease)

Funding Sources

- Indirect program costs are allocated to the direct programs.

Personnel Expenses

- The total number of legal FTEs is decreasing year-over-year due to timekeeping and trends. The amount of time personnel are performing direct activities related to enforcement, registration and certification are being appropriately budgeted in those respective areas.
- Of the personnel expenses being budgeted in 2011, these expenses are being recorded separately from the G&A department, unlike 2010's budget. This is due to no one employee's salary being separately identifiable.
- No additional FTEs will be added to Legal and Regulatory in 2011.

Meeting Expenses

- Travel expenses are increasing to accommodate more NERC related travel which will be required.

Operating Expenses

- The consultants and contracts cost for Ethicspoint, \$1.8K are being recorded under contracts in 2011. In 2010, these expenses were recorded under miscellaneous.
- Office costs for legal and regulatory are decreasing \$3K year-over-year due to efficiencies between G&A and Legal and Regulatory.
- The professional services for external legal expenses are decreasing \$120K due to direct coding of outside counsel expenses to where the work is being performed. For each invoice received, it is evaluated to determine which activity is receiving the service and is subsequently being recorded under that activity.
- In 2010, the miscellaneous expenses category was for seminars/training costs. In 2011, employee training is being reclassified as part of employee benefits and therefore that expense is reflected in a different area.

Indirect Expenses

- Indirect program costs are allocated to the direct programs.

Other Non-Operating Expenses

- N/A

Fixed Asset Additions

- N/A

Legal and Regulatory

Funding sources and related expenses for the general and administrative section of the 2011 business plan are shown in the table below.

Statement of Activities and Capital Expenditures					
2010 Budget & Projection, and 2011 Budget					
Legal and Regulatory					
	2010 Budget	2010 Projection	Variance 2010 Projection v 2010 Budget Over(Under)	2011 Budget	Variance 2011 Budget v 2010 Budget Over(Under)
Funding					
Texas RE Funding					
Texas RE Assessments	\$ -	\$ -	\$ -	\$ -	\$ -
Penalty Sanctions	-	-	-	-	-
Total Texas RE Funding	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Membership Dues	-	-	-	-	-
Federal Grants	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Expenses					
Personnel Expenses					
Salaries	\$ -	\$ -	\$ -	\$ 239,802	\$ 239,802
Payroll Taxes	-	-	-	21,302	21,302
Benefits	-	-	-	31,235	31,235
Retirement Costs	-	-	-	34,771	34,771
Total Personnel Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 327,110</u>	<u>\$ 327,110</u>
Meeting Expenses					
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	4,478	3,989	(489)	6,551	2,073
Conference Calls	-	-	-	-	-
Total Meeting Expenses	<u>\$ 4,478</u>	<u>\$ 3,989</u>	<u>\$ (489)</u>	<u>\$ 6,551</u>	<u>\$ 2,073</u>
Operating Expenses					
Consultants & Contracts	\$ -	\$ -	\$ -	\$ 1,800	\$ 1,800
Office Rent	-	-	-	-	-
Office Costs	5,400	5,400	-	2,240	(3,160)
Professional Services	138,000	138,000	-	18,000	(120,000)
Miscellaneous	6,200	6,200	-	-	(6,200)
Depreciation	-	-	-	-	-
Total Operating Expenses	<u>\$ 149,600</u>	<u>\$ 149,600</u>	<u>\$ -</u>	<u>\$ 22,040</u>	<u>\$ (127,560)</u>
Total Direct Expenses	<u>\$ 154,078</u>	<u>\$ 153,589</u>	<u>\$ (489)</u>	<u>\$ 355,701</u>	<u>\$ 201,623</u>
Indirect Expenses	<u>\$ (154,078)</u>	<u>\$ (154,078)</u>	<u>\$ -</u>	<u>\$ (355,701)</u>	<u>\$ (201,623)</u>
Other Non-Operating Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Expenses	<u>\$ -</u>	<u>\$ (489)</u>	<u>\$ (489)</u>	<u>\$ -</u>	<u>\$ 0</u>
Change in Assets	<u>\$ -</u>	<u>\$ 489</u>	<u>\$ 489</u>	<u>\$ -</u>	<u>\$ (0)</u>
Fixed Assets					
Depreciation	-	-	-	-	-
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Allocation of Fixed Assets	\$ -	\$ -	-	-	-
Change in Fixed Assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL CHANGE IN NET ASSETS	<u>\$ -</u>	<u>\$ 489</u>	<u>\$ 489</u>	<u>\$ -</u>	<u>\$ (0)</u>

Information Technology

Information Technology (in whole dollars)			
	2010 Budget	2011 Budget	Increase (Decrease)
Total FTEs	2.5	2.6	0.1
Expenses	\$ -	\$ -	\$ -
Inc(Dec) in Fixed Assets	\$ -	\$ -	\$ -
Working Capital Requirement	\$ -	\$ -	\$ -

Program Scope and Functional Description

Texas RE's IT program provides a broad range of information technology support to Texas RE, including the following: management of IT operations; IT-related vendor management; strategy; planning, development, and deployment of enterprise systems and computer applications/systems; and training, research, and planning for improvement and efficiency.

Management of IT operations includes administration and maintenance of hardware (laptops, phones, servers, and peripherals), systems (networks and databases), software, and applications such as the Texas RE Portal, Compliance Issue Tracking System, public Web site, regional standards tracking Web tool, and document management system. Texas RE's approach is to keep its in-house IT staff small and outsource most maintenance, services, and new development. To ensure that applications and hardware are well maintained, service levels remain high, and costs are controlled, IT staff manages multiple IT vendors, oversees day-to-day support and administration, and plans for future requirements.

Texas RE IT staff will continue several operational initiatives in 2011 in support of the IT infrastructure implemented in 2010. These initiatives include identifying and fulfilling technology needs to reinforce and improve operations; refining IT policies and procedures to make operations more efficient, secure, and prepared for eventualities; and providing additional employee training on IT best practices. Texas RE IT staff also foresees that the early part of 2011 will be devoted to executing carry-over IT work related to Texas RE's late 2010 relocation to a larger office space.

Although much of 2011 will be focused on operations, Texas RE IT staff will also work with Texas RE management to update its long-term technology strategy. Strategic focus will be on hardening security; increasing Texas RE efficiency and meeting the needs of the mobile workforce; and planning for system integration and communications, both internal and external (NERC and other regions).

2011 Key Assumptions

- Texas RE will continue to outsource many key IT services (server hosting and related services, networking, electronic security, deskside support, email, etc.) to third-party vendors. A small Texas RE staff will oversee the vendors and the related policies, service, performance, and costs.
- Texas RE will not increase IT FTEs but will meet the need for highly specialized work or work increases by augmenting staff with temporary contractors, used mainly for development or project work. IT employees will cross-train to serve as backups for each other.

- Texas RE will be a member of the Regional Entity Consortium User Group to collaborate on and share the development costs for the portal with other Regional Entities and NERC.
- Texas RE will have transitioned the non-statutory work performed on behalf of the PUCT to another entity selected by the PUCT effective December 31, 2010; and the IT program will not support data required for monitoring the ERCOT Protocols.
- Texas RE will relocate to a larger office space in December 2010.

2011 Goals and Key Deliverables

IT objectives for 2011 include the following:

1. Manage current IT operations, including the application, software, and service portfolio; budget; infrastructure; service support (employee access, service desk/service requests, events, incidents, problems, changes, releases, configuration); service design and delivery (service level, risk, capacity, availability, continuity, information security, compliance, architecture); service transition; demand; and hardware and network security.
2. Monitor and update long-term strategy in response to business needs, including regularly meeting with managers and soliciting input from staff.
3. Continue to research and develop and/or purchase software and hardware to respond to immediate business needs and industry changes.
4. Manage vendors to ensure quality of services and applications and responsiveness to Texas RE needs.
5. Engineer project requirements, and prioritize and oversee IT projects
6. Work effectively with other regional entities and NERC to ensure that Texas RE remains consistent.
7. Conduct annual evaluation of technologies and vendors for functionality, performance, availability, and cost-effectiveness.
8. Coordinate with CIP staff to conduct annual evaluation of vendors to ensure adherence to Texas RE security requirements.
9. Create baseline metrics for Texas RE usage (storage, networks, support requests, etc.) for the purpose of scaling services appropriately.
10. Update IT operating policies and procedures and implement new ones in response to IT best practices training and “lessons learned” after a year of full-scale operations.
11. Coordinate with CIP staff to assess and if necessary update IT security requirements in response to industry changes.
12. Test the IT plan for disaster response and recovery.
13. Train and support Texas RE staff on software and applications.
14. Train IT staff on best operational practices and ensure IT staff members are trained in multiple areas of IT operations.

Funding Sources and Requirements — Explanation of Increase (Decrease)**Funding Sources**

- Indirect program costs are allocated to the direct programs.

Personnel Expenses

- The total number of IT FTEs is increasing year-over-year due to timekeeping and trends. The amount of time personnel are performing direct activities related to enforcement, registration and certification are being appropriately budgeted in those respective areas.
- Personnel expenses are being recorded separately from the G&A department. This is due to no one employee's salary being separately identifiable.
- There are no additional increases in headcount for IT at this time.

Meeting Expenses

- Anticipate hosting one CUG meeting at Texas RE's offices. This is resulting in meetings costs of \$2K for 2011.
- Travel is decreasing slightly year-over-year due to Texas RE hosting at least 1 meeting at its offices, this will eliminate at least one trip from 2010.
- Conference calls expense \$12K is related to online conference calling services being procured for Texas RE staff use. This was previously incurred under the MOU with prior to 2011.

Operating Expenses

- Consultants and contracts expense is increasing \$331K year-over-year. The 2011 budget reflects the full year of managed hosting and managed services. In 2010, that budget was reflected under professional services.
- Office costs are increasing \$173K to accommodate the internet/telephone expenses previously reflected under the MOU in the G&A activity. Reflects increases for hosting costs, managed services costs and support services. All of which were significantly higher than 2010's budget, which was an unknown start-up year.
- In 2010, miscellaneous expenses included seminar/employee training costs. In 2011, training is being reclassified as part of employee benefits and therefore that expense is reflected in a different area.
- Depreciation expense is generally increasing \$131K to accommodate the transfer of IT assets from the G&A, and Finance departments as well as the increased base of assets associated with the new Texas RE.

Indirect Expenses

- Indirect program costs are allocated to the direct programs.

Other Non-Operating Expenses

- N/A

Fixed Asset Additions

- The allocation of fixed assets declined due to 2010 being a start-up year with significant capital purchases due to Texas RE start-up.

Information Technology

Funding sources and related expenses for the information technology section of the 2011 business plan are shown in the table below.

Statement of Activities and Capital Expenditures					
2010 Budget & Projection, and 2011 Budget					
Information Technology					
	2010 Budget	2010 Projection	Variance 2010 Projection v 2010 Budget Over(Under)	2011 Budget	Variance 2011 Budget v 2010 Budget Over(Under)
Funding					
Texas RE Funding					
Texas RE Assessments	\$ -	\$ -	\$ -	\$ -	\$ -
Penalty Sanctions				-	
Total Texas RE Funding	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Membership Dues	-	-	-	-	-
Federal Grants	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Expenses					
Personnel Expenses					
Salaries	\$ -	\$ -	\$ -	\$ 261,070	\$ 261,070
Payroll Taxes	-	-	-	23,196	23,196
Benefits	-	-	-	41,173	41,173
Retirement Costs	-	-	-	37,855	37,855
Total Personnel Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 363,295</u>	<u>\$ 363,295</u>
Meeting Expenses					
Meetings	\$ -	\$ -	\$ -	\$ 2,000	\$ 2,000
Travel	4,057	3,614	(443)	3,805	(252)
Conference Calls	-	-	-	12,000	12,000
Total Meeting Expenses	<u>\$ 4,057</u>	<u>\$ 3,614</u>	<u>\$ (443)</u>	<u>\$ 17,805</u>	<u>\$ 13,748</u>
Operating Expenses					
Consultants & Contracts	\$ -	\$ -	\$ -	\$ 330,634	\$ 330,634
Office Rent	-	-	-	-	-
Office Costs	960	960	-	174,235	173,275
Professional Services	214,733	457,049	242,316	-	(214,733)
Miscellaneous	6,500	6,500	-	-	(6,500)
Depreciation	12,000	56,000	44,000	143,383	131,383
Total Operating Expenses	<u>\$ 234,193</u>	<u>\$ 520,509</u>	<u>\$ 286,316</u>	<u>\$ 648,252</u>	<u>\$ 414,059</u>
Total Direct Expenses	<u>\$ 238,250</u>	<u>\$ 524,123</u>	<u>\$ 285,873</u>	<u>\$ 1,029,352</u>	<u>\$ 791,103</u>
Indirect Expenses	<u>\$ (238,250)</u>	<u>\$ (238,250)</u>		<u>\$ (1,029,352)</u>	<u>\$ (791,103)</u>
Other Non-Operating Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Expenses	<u>\$ -</u>	<u>\$ 285,873</u>	<u>\$ 285,873</u>	<u>\$ -</u>	<u>\$ -</u>
Change in Assets	<u>\$ -</u>	<u>\$ (285,873)</u>	<u>\$ (285,873)</u>	<u>\$ -</u>	<u>\$ -</u>
Fixed Assets					
Depreciation	(12,000)	(12,000)	(44,000)	(143,383)	(131,383)
Computer & Software CapEx	666,263	889,743	223,480	95,000	(571,263)
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	<u>\$ (654,263)</u>	<u>\$ (877,743)</u>	<u>\$ (179,480)</u>	<u>\$ 48,383</u>	<u>\$ 702,646</u>
Allocation of Fixed Assets	\$ 654,263	\$ 654,263	-	(48,383)	\$ (702,646)
Change in Fixed Assets	<u>-</u>	<u>(223,480)</u>	<u>(179,480)</u>	<u>-</u>	<u>-</u>
TOTAL CHANGE IN NET ASSETS	<u>\$ -</u>	<u>\$ (509,353)</u>	<u>\$ (465,353)</u>	<u>\$ -</u>	<u>\$ -</u>

Human Resources

Human Resources (in whole dollars)			
	2010 Budget	2011 Budget	Increase (Decrease)
Total FTEs	0.9	1.0	0.1
Expenses	\$ -	\$ -	\$ -
Inc(Dec) in Fixed Assets	\$ -	\$ -	\$ -
Working Capital Requirement	\$ -	\$ -	\$ -

Program Scope and Functional Description

The Texas RE Human Resources department provides a broad range of support to all Texas RE employees. The HR function consists of delivery and enforcement of all personnel and employment related policies, procedures, and documents. HR is responsible for administering all employee benefit programs, recruiting, the new hire process, orientation, partnering with managers to develop and counsel employees, and maintaining competitive market analysis on all Texas RE positions. HR will also maintain the HRIS and the Payroll Master File and ensure DOL compliance with all federal and state requirements. HR will continue to develop and enhance the culture of Texas RE as it grows, in effort to improve retention, reduce turnover, and attract top talent for new positions. HR will minimize risk to the organization by ensuring that employees are treated in a fair and consistent manner and that the Texas RE employment policies are followed on a regular basis.

2011 Key Assumptions

- Texas RE Human Resources department will consist of 1 position, the HR Manager.
- HR will begin to enhance and improve various policies, procedures, systems, and programs which were originally put into place for “start-up” and necessary based on timing of the spin-off event.
- HR will begin to analyze key HRIS data for purposes of being a strategy partner to management.

2011 Goals and Key Deliverables

- Reduce the length of time of the recruitment process (from open requisition to offer letter) by at least 20%
- Enhance employee benefits plans
- Enhance and improve available employee self-service features within HRIS
- Improve the performance review process for all employees

Funding Sources and Requirements — Explanation of Increase (Decrease)

Funding Sources (Other than ERO Assessments)

- Indirect program costs are allocated to the direct programs.

Personnel Expenses

- Personnel expenses are being recorded in the G&A department. This is due to one employee's salary being separately identifiable.

Meeting Expenses

- Travel is being budgeted to accommodate two HR related trainings.

Operating Expenses

- Consultants and contracts expense previously budgeted under professional services in 2010. In 2011, there will not be start-up costs to be paid and therefore it is appropriate to reduce expense.
- Professional services reflects a reduction in 2011 due to reclassification of expense as mentioned above, as well as the elimination of start-up costs in 2011. However, there is \$8K budgeted for legal support related to specific HR related areas.

Indirect Expenses

- Indirect program costs are allocated to the direct programs.

Other Non-Operating Expenses

- N/A

Fixed Asset Additions

- N/A

Human Resources

Funding sources and related expenses for the human resources section of the 2011 business plan are shown in the table below.

Statement of Activities and Capital Expenditures					
2010 Budget & Projection, and 2011 Budget					
Human Resources					
	2010 Budget	2010 Projection	Variance 2010 Projection v 2010 Budget Over(Under)	2011 Budget	Variance 2011 Budget v 2010 Budget Over(Under)
Funding					
Texas RE Funding					
Texas RE Assessments	\$ -	\$ -	\$ -	\$ -	\$ -
Penalty Sanctions				-	
Total Texas RE Funding	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Membership Dues	-	-	-	-	-
Federal Grants	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Expenses					
Personnel Expenses					
Salaries	\$ -	\$ -	\$ -	\$ -	\$ -
Payroll Taxes	-	-	-	-	-
Benefits	-	-	-	-	-
Retirement Costs	-	-	-	-	-
Total Personnel Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Meeting Expenses					
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	-	-	-	1,363	1,363
Conference Calls	-	-	-	-	-
Total Meeting Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,363</u>	<u>\$ 1,363</u>
Operating Expenses					
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-	-	-	-	-
Office Costs	-	-	-	260	260
Professional Services	121,720	121,720	-	7,500	(114,220)
Miscellaneous	-	-	-	-	-
Depreciation	-	-	-	-	-
Total Operating Expenses	<u>\$ 121,720</u>	<u>\$ 121,720</u>	<u>\$ -</u>	<u>\$ 7,760</u>	<u>\$ (113,960)</u>
Total Direct Expenses	<u>\$ 121,720</u>	<u>\$ 121,720</u>	<u>\$ -</u>	<u>\$ 9,123</u>	<u>\$ (112,597)</u>
Indirect Expenses	<u>\$ (121,720)</u>	<u>\$ (121,720)</u>		<u>\$ (9,123)</u>	<u>\$ 112,597</u>
Other Non-Operating Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Expenses	<u>\$ -</u>	<u>\$ (0)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 0</u>
Change in Assets	<u>\$ -</u>	<u>\$ 0</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (0)</u>
Fixed Assets					
Depreciation	-	-	-	-	-
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Allocation of Fixed Assets	\$ -	\$ -	\$ -	-	-
Change in Fixed Assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL CHANGE IN NET ASSETS	<u>\$ -</u>	<u>\$ 0</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (0)</u>

Finance and Accounting

Accounting and Finance (in whole dollars)			
	2010 Budget	2011 Budget	Increase (Decrease)
Total FTEs	1.7	2.0	0.3
Expenses	\$ -	\$ -	\$ -
Inc(Dec) in Fixed Assets	\$ -	\$ -	\$ -
Working Capital Requirement	\$ -	\$ -	\$ -

Program Scope and Functional Description

The Finance and Accounting staff will provide a broad range of support to Texas RE management and personnel. Finance and Accounting staff are required to formulate and monitor the Texas RE budget for controlling funds to implement the Texas RE's objectives and will also review and evaluate the performance of key processes for maintaining tight financial controls in a cost-effective and efficient manner. Finance and Accounting staff will guide the annual budget process for the Texas RE and measure performance of all key aspects of the Texas RE to ensure performance matches or exceeds expectations, including the analysis of trends affecting budget needs and developing periodic financial reports. Texas RE's monthly general ledger close activities will be managed by Texas RE Finance and Accounting personnel. The Finance and Accounting staff are required to ensure Texas RE appropriately accounts for all Statutory and Non-statutory expenses and revenue appropriately. This will involve generating monthly financial reports that will be communicated to the CEO, the department managers and the board.

Texas RE Finance and Accounting will also direct the financial affairs of the organization and prepare financial analyses of operations, including interim and final financial statements with supporting schedules, for the guidance of management. Additionally, Texas RE Finance and Accounting will have responsibility for the company's financial plans and policies, its accounting practices, the conduct of its relationships with banking institutions, the maintenance of its fiscal records, and the preparation of financial reports. Texas RE Finance and Accounting will be centrally responsible for general accounting, accounts payable, accounts receivable, payroll processing, fixed asset accounting, cost accounting, and budgetary controls.

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

2011 Key Assumptions

- There is no need to hire additional staff. However, a small increase related to the previous Non-statutory FTEs is being reclassified back to Statutory activities.
- The volume of transactions will approximate what has been processed in 2010.
- There will be no accounting system changes.
- We will continue to outsource the payroll processing and expense reporting functions.
- There will be no additional banking requirements.

2011 Goals and Key Deliverables

1. Ensure that the accounting, finance, and budgeting functions are appropriately managed at Texas RE.
2. Keep the CEO informed of budget, expenditures, and total operational financial performance.
3. Continue to facilitate the Financial Reporting for the Board.
4. Ensure that Texas RE receives an unqualified opinion on the audit of the financial statements.
5. Continue to support and coordinate with NERC finance staff to meet quarterly and annual reporting requirements.
6. Review workflow and adjust as required to better enable Texas RE staff operational success.

Funding Sources and Requirements — Explanation of Increase (Decrease)**Funding Sources (Other than ERO Assessments)**

- Indirect program costs are allocated to the direct programs.

Personnel Expenses

- Personnel expenses are being recorded separately from the G&A department. This is due to no one employee's salary being separately identifiable.

Meeting Expenses

- Travel costs are decreasing year-over-year due to use of conference calls for REBG meetings.

Operating Expenses

- Consultants and contracts reflects the annual maintenance costs for the accounting system. The net effect is an \$8K increase in 2011, over 2010, which was the start-up year.
- Office costs are increasing \$2K in 2011 due to the need to purchase check stock, postage and forms.
- Professional services are reflecting reductions from 2010 related to lower pricing obtained for accounting support services. The expected decrease for 2011 is \$8K.
- The miscellaneous category was related to treasury start-up costs that will no longer be necessary in 2011. This reduction in expense is approximately \$13K.

Indirect Expenses

- Indirect program costs are allocated to the direct programs.

Other Non-Operating Expenses

- N/A

Fixed Asset Additions

- N/A

Finance and Accounting

Funding sources and related expenses for the accounting and finance section of the 2011 business plan are shown in the table below.

Statement of Activities and Capital Expenditures					
2010 Budget & Projection, and 2011 Budget					
Finance and Accounting					
	2010 Budget	2010 Projection	Variance 2010 Projection v 2010 Budget Over(Under)	2011 Budget	Variance 2011 Budget v 2010 Budget Over(Under)
Funding					
Texas RE Funding					
Texas RE Assessments	\$ -	\$ -	\$ -	\$ -	\$ -
Penalty Sanctions	-	-	-	-	-
Total Texas RE Funding	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Membership Dues	-	-	-	-	-
Federal Grants	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Expenses					
Personnel Expenses					
Salaries	\$ -	\$ -	\$ -	\$ 177,495	\$ 177,495
Payroll Taxes	-	-	-	15,755	15,755
Benefits	-	-	-	22,796	22,796
Retirement Costs	-	-	-	25,737	25,737
Total Personnel Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 241,783</u>	<u>\$ 241,783</u>
Meeting Expenses					
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	2,145	1,911	(234)	1,619	(526)
Conference Calls	-	-	-	-	-
Total Meeting Expenses	<u>\$ 2,145</u>	<u>\$ 1,911</u>	<u>\$ (234)</u>	<u>\$ 1,619</u>	<u>\$ (526)</u>
Operating Expenses					
Consultants & Contracts	\$ -	\$ -	\$ -	\$ 8,000	\$ 8,000
Office Rent	-	-	-	-	-
Office Costs	880	880	-	3,205	2,325
Professional Services	217,010	217,010	-	209,200	(7,810)
Miscellaneous	12,701	12,701	-	-	(12,701)
Depreciation	-	-	-	-	-
Total Operating Expenses	<u>\$ 230,591</u>	<u>\$ 230,591</u>	<u>\$ -</u>	<u>\$ 220,405</u>	<u>\$ (10,186)</u>
Total Direct Expenses	<u>\$ 232,736</u>	<u>\$ 232,502</u>	<u>\$ (234)</u>	<u>\$ 463,807</u>	<u>\$ 231,071</u>
Indirect Expenses	<u>\$ (232,736)</u>	<u>\$ (232,736)</u>	<u>\$ -</u>	<u>\$ (463,807)</u>	<u>\$ (231,071)</u>
Other Non-Operating Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Expenses	<u>\$ -</u>	<u>\$ (234)</u>	<u>\$ (234)</u>	<u>\$ -</u>	<u>\$ -</u>
Change in Assets	<u>\$ -</u>	<u>\$ 234</u>	<u>\$ 234</u>	<u>\$ -</u>	<u>\$ -</u>
Fixed Assets					
Depreciation	-	-	-	-	-
Computer & Software CapEx	41,000	41,000	-	-	(41,000)
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	<u>\$ (41,000)</u>	<u>\$ (41,000)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 41,000</u>
Allocation of Fixed Assets	\$ 41,000	\$ 41,000	-	-	(41,000)
Change in Fixed Assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL CHANGE IN NET ASSETS	<u>\$ -</u>	<u>\$ 234</u>	<u>\$ 234</u>	<u>\$ -</u>	<u>\$ -</u>

Section B – Supplemental Financial Information 2011 Business Plan and Budget



Section B — Supplemental Financial Information

Reserve Balance

Table B-1

Working Capital Reserve Analysis 2010-2011	
STATUTORY	
Beginning Working Capital Reserve (Deficit), December 31, 2009	1,736,988
Less: Penalty sanctions to be used as offset to 2011 assessments ¹	(20,000)
Plus: 2010 Texas RE Funding (from LSEs or designees)	9,144,340
Plus: 2010 Other funding sources	209,000
Less: 2010 Projected expenses & capital expenditures	(9,242,227)
Projected Working Capital Reserve (Deficit), December 31, 2010	1,828,100
Desired Working Capital Reserve, December 31, 2011	² 1,945,323
Less: Projected Working Capital Reserve, December 31, 2010	(1,828,100)
Increase(decrease) in assessments to achieve desired Working Capital Reserve	117,223
2011 Expenses and Capital Expenditures	9,314,155
Less: Penalty Sanctions ¹	(20,000)
Less: Other Funding Sources	(243,600)
Adjustment to achieve desired Working Capital Reserve	117,223
2011 Texas RE Assessment	9,167,778

¹ Represents collections on or prior to June 30, 2010. See page xx for full disclosure.

² On xxxxxx, 20xx, the RE Finance and Audit Committee approved a desired working capital reserve of \$x,xxx,xxx. The reserve consists of the following components:

Explanation of Changes in Reserve Policy from Prior Years

Breakdown by Statement of Activity Sections

The following detailed schedules are in support of Table 1, page 13, of the 2011 RE Business Plan and Budget. All significant variances have been disclosed by program area in the preceding pages.

Penalty Sanctions

Penalty monies received prior to June 30, 2010 are to be used to offset assessments in the 2011 Budget, as documented in the NERC Policy – ACCOUNTING, FINANCIAL STATEMENT AND BUDGETARY TREATMENT OF PENALTIES IMPOSED AND RECEIVED FOR VIOLATIONS OF RELIABILITY STANDARD. Penalty monies received from July 1, 2010 through June 30, 2011 will be used to offset assessments in the 2012 Budget.

All penalties received prior to June 30, 2010 are detailed below, including Company, the amount, and date received.

Allocation Method: Penalty sanctions received have been allocated to the following statutory programs to reduce assessments: Reliability Standards; Compliance Monitoring & Enforcement and Organization Registration & Certification; Reliability Assessments and Performance Analysis; Training, Education and Operator Certification; and Situational Awareness and Infrastructure Security. Penalty sanctions are allocated based upon the number of FTEs in the Program divided by the aggregate total FTEs in the Programs receiving the allocation.

Table B-2

Penalty Sanctions Received On or Prior to June 30, 2010		
	Date Received	Amount Received
BTU QSE Services Inc.	8/26/09	5,000
Constellation	9/4/09	5,000
TBD	6/30/10	10,000
Total Penalties Received		\$ 20,000

Supplemental Funding

Table B-3

Outside Funding Breakdown By Program	Budget 2010	Projection 2010	Budget 2011	Variance 2011 Budget v 2010 Budget
Reliability Standards				
Total	\$ -	\$ -	\$ -	\$ -
Compliance Monitoring, Enforcement & Org. Registration				
Workshops	\$ -	\$ -	\$ -	\$ -
Total	\$ -	\$ -	\$ -	\$ -
Reliability Assessment and Performance Analysis				
Miscellaneous	\$ -	\$ -	\$ -	\$ -
Federal Grants	-	-	-	-
Total	\$ -	\$ -	\$ -	\$ -
Training and Education				
Workshops	\$ 180,000	\$ 180,000	\$ 215,500	\$ 35,500
Total	\$ 180,000	\$ 180,000	\$ 215,500	\$ 35,500
Situation Awareness and Infrastructure Security				
Federal Grants	\$ -	\$ -	\$ -	\$ -
Total	\$ -	\$ -	\$ -	\$ -
Technical Committees and Member Forums				
Total	\$ -	\$ -	\$ -	\$ -
General and Administrative				
Membership Dues	\$ 27,000	\$ 27,000	\$ 27,500	\$ 500
Interest Income	2,000	2,000	600	(1,400)
Total	\$ 29,000	\$ 29,000	\$ 28,100	\$ (900)
Total Outside Funding	\$ 209,000	\$ 209,000	\$ 243,600	\$ 34,600

Explanation of Significant Variances – 2011 Budget versus 2010 Budget

1. Texas RE is adding and will be charging workshop attendees for the direct expenses associated with conducting those workshops.

Personnel Expenses

Table B-4

Personnel Expenses	Budget 2010	Projection 2010	Budget 2011	Variance 2011 Budget v 2010 Budget	Variance %
Salaries					
Salary	\$ 3,841,781	\$ 3,841,781	\$ 4,697,960	\$ 856,179	22%
Total Salaries	\$ 3,841,781	\$ 3,841,781	\$ 4,697,960	\$ 856,179	22%
Total Payroll Taxes					
	\$ 302,981	\$ 302,981	\$ 415,003	\$ 112,022	37%
Benefits					
Life, Health, Vision, etc.	\$ 408,773	\$ 408,773	\$ 655,954	\$ 247,181	60%
Total Benefits	\$ 408,773	\$ 408,773	\$ 655,954	\$ 247,181	60%
Retirement					
401(k) Contr. & Employee Matching	\$ 550,669	\$ 550,669	\$ 679,148	\$ 128,479	23%
Total Retirement	\$ 550,669	\$ 550,669	\$ 679,148	\$ 128,479	23%
Total Personnel Costs	\$ 5,104,203	\$ 5,104,203	\$ 6,448,065	\$ 1,343,862	26%
FTEs	39.50	39.50	49.00		
Cost per FTE					
Salaries	\$ 97,255	\$ 97,255	\$ 95,877	\$ (1,378)	-1.4%
Payroll Taxes	7,670	7,670	8,469	799	10.4%
Benefits	10,348	10,348	13,387	3,039	29.4%
Retirement	13,940	13,940	13,860	(80)	-0.6%
Total Cost per FTE	\$ 129,213	\$ 129,213	\$ 131,593	\$ 2,380	1.8%

Explanation of Significant Variances – 2011 Budget versus 2010 Budget

1. Texas RE salaries per FTE are in line with expectations.
2. Payroll taxes are higher due to higher FUTA (Federal Unemployment Taxes) and SUTA (State Unemployment Taxes). This increase is resulting from a lack of history with the respective agencies. This is expected to continue for at least another year.
3. Benefits expense reflects a couple of items not previously included in this category, such as Workers Compensation Insurance. Workers comp cost increase results in an increase to benefits costs of \$100K. This equates to 41% of the benefits cost increase. These expenses were previously paid under the MOU with ERCOT ISO prior to 2011, and Texas RE is a new corporation with no workers compensation experience rating.
4. Also included in benefits expense is training expenses for employees that were previously recorded under miscellaneous expense category. This is approximately \$29K in new expense for employee benefits and represents approximately 12% of the benefits increase.
5. Benefits expense also reflects \$30K in relocation that was previously paid under the MOU with ERCOT ISO prior to 2011. The increase represents approximately 12% of the benefits increase.

6. There is 25% of benefits expense increase reflected to allow for the highest benefit election by employees. With open enrollment not yet finalized for 2010, it is necessary to hedge against the unknown. The dollar amount of variance is appropriately \$55K.
7. Finally, under retirement, the budget is allowing for the highest matched contribution amount for employees.

Consultants and Contracts

Table B-5

Consultants	Budget 2010	Projection 2010	Budget 2011	Variance 2011 Budget v 2010 Budget	Variance %
Consultants					
65000-Consultants	\$ -	\$ -	\$ 20,000	\$ 20,000	100.00%
65200-IT-Hosting Fees	-	-	\$ 67,223	67,223	100.00%
65300-IT-Managed Services Fees	-	-	\$ 510,368	510,368	100.00%
Consultants Total	\$ -	\$ -	\$ 597,591	\$ 597,591	

Contracts	Budget 2010	Projection 2010	Budget 2011	Variance 2011 Budget v 2010 Budget	Variance %
Contracts					
Corporate Support Allocation (MOU)	\$ 44,777	\$ 44,777	\$ -	\$ (44,777)	-100.00%
Board Related Search & Support Fees	487,675	487,675	-	(487,675)	-100.00%
IT Administration (MOU)	72,032	72,032	-	(72,032)	-100.00%
Contracts	-	-	2,580	2,580	100.00%
Maintenance for Accounting System	-	-	8,000	8,000	100.00%
Contracts Total	\$ 604,483	\$ 604,483	\$ 10,580	\$ (593,903)	-98%
Total Consulting and Contracts	\$ 604,483	\$ 604,483	\$ 608,171	\$ 3,688	1%

Explanation of Significant Variances – 2011 Budget versus 2010 Budget

1. Consultant's expense of \$20K is reflecting recruiter fees and that are separate from the benefits expense charged to employees. However, the administration costs were previously budgeted under professional services in 2010. In 2011, there will not be start-up costs to be paid and therefore it is appropriate to reduce expense.
2. This represents Data Centers (Primary and Backup), Electronic Security Equipment Maintenance and Subscription \$67K. This expense category was also paid under the MOU and professional services prior to 2011.
3. This is for Managed Hosting Services and Infrastructure Services, Reliability Standards Tracking Site, 24-hour Managed Security Service Provider for Networks, Service Desk, Managed Exchange Services. The total expense of \$510K was previously paid under the MOU and professional services prior to 2011.
4. Under contracts, the previous MOU expenses (Corporate Support, Board, and IT Administration) paid to ERCOT ISO, prior to 2011 are no longer within this category. However, there are now direct expenses within G&A, IT, HR, and Finance that are accounted for in different account categories. Due to a new chart of accounts for 2010 associated with the separation of Texas RE from ERCOT ISO, it was necessary to adopt a chart of accounts more closely aligned with NERC.
5. There is \$2K for Ethicspoint budgeted in 2011 under contracts. This expense was previously budgeted under professional services in prior years.
6. Finally, the \$8K for maintenance expense is attributed to the annual maintenance for the accounting system. This is a new expense for 2011.

Table B-6

Office Rent	Budget 2010	Projection 2010	Budget 2011	Variance 2011 Budget v 2010 Budget	Variance %
Office Rent & Facilities	\$ 261,900	\$ 261,900	\$ 475,000	213,100	-20.05%
Utilities	-	-	-	-	
Security	-	-	24,000	24,000	
2010 Office Move and Improvements	50,000	50,000	-	(50,000)	100.00%
2010 Office Move Project Management Expense	25,000	25,000	-	(25,000)	100.00%
MRC, Standards, and Board Meeting Room	27,000	27,000	-	(27,000)	100.00%
Total Office Rent	\$ 363,900	\$ 363,900	\$ 499,000	\$ 135,100	37.13%

Explanation of Significant Variances – 2011 Budget versus 2010 Budget

1. Rent expenses are increasing \$213K for two reasons.
 - o First, the non-statutory portion of the rent expense is being absorbed into the Statutory activity/area. The amount of rent previously charged would no longer be direct coded to Non-statutory expenses (\$80K) Instead, Non-statutory receives an allocation of indirect expenses based on its pro-rata share of FTEs.
 - o The second reason for the increase is attributed to Texas RE procuring additional space for its current staff, growth and meeting space. The resulting increase from this is approximately \$133K for the year. Texas RE does not have enough space for its proposed 2011 headcount.
2. Additionally, the lease is expected to expire December 31, 2010. Therefore, there are reasons to move to new, and larger space that will enable Texas RE to operate effectively.
3. Finally, Texas RE believes that procuring the larger space will allow Texas RE to reduce the meeting costs over time. If Texas RE is required to host its larger meetings offsite, the cost of hotel, food and ancillary services will be higher.

Table B-7

Office Costs	Budget 2010	Projection 2010	Budget 2011	Variance 2011 Budget v 2010 Budget	Variance %
Office Supplies	\$ 16,766	\$ 16,766	\$ 9,600	\$ (7,166)	-42.74%
Computer Supplies	-	-	20,000	20,000	100.00%
Telephone/Cell Phones	14,040	14,040	36,240	22,200	158.12%
Postage	3,713	3,713	1,440	(2,273)	-61.22%
Express Shipping	7,980	7,980	4,000	(3,980)	-49.87%
Stationary Forms	4,913	4,913	2,350	(2,563)	-52.17%
Reports - Graphics	1,200	1,200	1,000	(200)	0.00%
Internet Expense			105,655	105,655	100.00%
Subscriptions & Publications		-	1,240	1,240	100.00%
Equipment Repair/Srv. Contracts			37,420	37,420	100.00%
Bank Charges			600	600	100.00%
71500-Dues			4,950	4,950	100.00%
Total Office Costs	\$ 48,612	\$ 48,612	\$ 224,495	\$ 132,913	361.81%

Explanation of Significant Variances – 2011 Budget versus 2010 Budget

1. General office supplies prior to 2011 reflected computer supplies and certain contract expenses for document destruction. Those new accounts are broken-out in 2011 and so can be tracked more accurately. The result is a shift in expense to computer supplies of \$7K.
2. Computer supplies are increasing year-over-year due to separation. There will be small items purchased over the course of the year that do not meet the capital threshold, such as mice, cords, powerstrips, small UPS units, etc. Net-net, the \$20K increase should be net of the \$7K shift from office supplies.
3. Telephone is increasing primarily related to online meeting service costs. This expense was previously included in the MOU costs prior to 2011. The result is an increase of \$12K for those expenses. Additionally, there is approximately a \$10K increase in general telephone expense which also was paid under the MOU prior to 2011.
4. Centralized management of the postage, express shipping and stationary should allow us to reduce costs by approximately \$8K from the 2010 budget. The volumes are decreasing due to the new corporate structure.
5. Internet expense is increasing \$105K this expense category was paid under the MOU prior to 2011 and a small amount for hosting was budgeted in 2010. However, the contracts in place will require the higher connectivity expense between Texas RE, its data center and its back-up location.
6. Equipment repair and maintenance for the Local Area Network Equipment Service Support and Maintenance; Network Server Hardware Service and Warranty is expected to total approximately \$37K.

7. The remaining items for subscriptions, publications, bank charges, and dues were previously paid under miscellaneous and have been reclassified here for the new chart of accounts.

Table B-8

Professional Services	Budget 2010	Projection 2010	Budget 2011	Variance 2011 Budget v 2010 Budget	Variance %
Outside Legal	\$ 390,000	\$ 390,000	\$ 320,000	\$ (70,000)	-17.95%
Accounting & Auditing Fees	87,820	\$ 87,820	90,000	2,180	2.48%
Accounting Services Fees	46,582	\$ 46,582		(46,582)	-100.00%
Insurance / Risk Management	82,608	\$ 82,608	85,000	2,392	2.90%
IT Professional Services	388,217	\$ 630,533		(388,217)	-100.00%
RSVP Hosting	10,000	\$ 10,000		(10,000)	-100.00%
Professional Engineering Services	-	\$ -		-	0.00%
Recruitment	63,000	\$ 63,000	14,180	(48,820)	-77.49%
Other Professional Services	60,000	\$ 60,000		(60,000)	-100.00%
Benefits Administration	70,720	\$ 70,720	20,020	(50,700)	-71.69%
Board Fees	-	\$ -	220,800	220,800	100.00%
Security	15,300	\$ 15,300	-	(15,300)	-100.00%
Total Services	\$ 1,214,246	\$ 1,456,562	\$ 750,000	\$ (464,246)	-48.51%

Explanation of Significant Variances – 2011 Budget versus 2010 Budget

1. Outside legal expenses are expected to decrease from 2010 to 2011. Therefore the budget is being reduced \$70K.
2. Accounting and auditing fees (including accounting service fees) are reflecting reductions of \$44K. This is attributed to savings in HR and Finance service providers.
3. IT professional services have been moved to consultants and contracts and are now in a more permanent account for Texas RE's new environment. This \$388K reduction has been shifted to the items above in Tables B-5 and B-7.
4. RSVP hosting is now included in the general hosting costs for Texas RE. The new environment allows for the consolidation of that hosting into IT.
5. By adding a dedicated HR manager in 2010, Texas RE is able to capitalize on efficiencies and reduce its recruiting fees.
6. Other professional services related to the separation planning will not be incurred in 2011.
7. Benefits administration costs for benefit design and management are expected to be significantly less due to elimination of start-up expenses. The result is a savings of \$51K.
8. Board fees have been shifted from consultants and contracts to professional services in the new chart of accounts. The increase reflected here is \$221K; however there is a corresponding reduction under consultants and contracts of \$488K.
9. Security is now budgeted under rent and facilities and therefore in 2011, there is \$0 budgeted in this category. It is expected that security will remain within rent and facilities from now on.

Table B-9

Other Non-Operating Expenses	Budget 2010	Projection 2010	Budget 2011	Variance 2011 Budget v 2010 Budget	Variance %
Total Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	-

Explanation of Significant Variances – 2011 Budget versus 2010 Budget

Section C – Non-Statutory Activities 2011 Business Plan and Budget



Section C — 2010 Non-Statutory Business Plan and Budget

Non-Statutory Activities (in whole dollars)			
	2010 Budget	2011 Budget	Increase (Decrease)
Total FTEs	6.5	1.0	(5.5)
Direct Expenses	1,112,132	185,612	(926,520)
Indirect Expenses	-	74,629	74,629
Inc(Dec) in Fixed Assets	(37,000)	-	37,000
Total Funding Requirement	1,075,132	260,241	(814,891)

Non-Statutory Functional Scope

Texas RE will also perform limited Non-statutory duties. Texas RE does not anticipate performing the audits, investigations, or other monitoring or reporting of market participants' compliance with ERCOT Protocols and Operating Guides that it performed in 2010 and its predecessor Texas Regional Entity performed in previous years. Texas RE will, however, need to respond to subpoenas and provide testimony and technical support to the Public Utility Commission of Texas (PUCT) regarding Texas RE's previous non-statutory compliance and reporting from the period in which Texas RE conducted these activities, for a transitional period.

Major 2011 Assumptions and Cost Impacts

- Texas RE will not be the compliance authority performing Protocol and Operating Guide compliance monitoring and reporting for the PUCT in 2011
- Texas RE's Non-statutory activities will include responding to subpoenas, providing testimony and technical support to the PUCT regarding compliance matters from prior to 2011

2011 Primary Goals and Objectives —

- Appropriately respond to all subpoenas and requests for information and provide required testimony and technical support for the PUCT

2010 Budget and Projection and 2011 Budget Comparisons

Statement of Activities and Capital Expenditures					
2010 Budget & Projection, and 2011 Budget					
NON-STATUTORY					
	2010 Budget	2010 Projection	Variance 2010 Projection v 2010 Budget Over(Under)	2011 Budget	Variance 2011 Budget v 2010 Budget Over(Under)
Funding					
Texas RE Funding					
Texas RE Assessments	\$ -	\$ -	\$ -	\$ -	\$ -
Penalty Sanctions	\$ -	\$ -	\$ -	\$ -	\$ -
Total Texas RE Funding	\$ -	\$ -	\$ -	\$ -	\$ -
Membership Dues/Non-statutory Assessments	1,183,879	1,183,879	-	260,241	\$ (923,639)
Federal Grants	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 1,183,879	\$ 1,183,879	\$ -	\$ 260,241	\$ (923,639)
Expenses					
Personnel Expenses					
Salaries	\$ 656,614	\$ 656,614	\$ (343,724)	\$ 109,908	\$ (546,707)
Payroll Taxes	53,181	53,181	(20,351)	9,754	(43,427)
Benefits	73,123	73,123	(30,086)	14,013	(59,109)
Retirement Costs	95,280	95,280	(31,443)	15,937	(79,343)
Total Personnel Expenses	\$ 878,199	\$ 878,199	\$ (425,604)	\$ 149,612	\$ (728,587)
Meeting Expenses					
Meetings	\$ 5,600	\$ 5,600	\$ (48,815)	\$ -	\$ (5,600)
Travel	624	624	(21,233)	-	(624)
Conference Calls	-	-	-	-	-
Total Meeting Expenses	\$ 6,224	\$ 6,224	\$ (70,048)	\$ -	\$ (6,224)
Operating Expenses					
Consultants & Contracts	\$ 82,467	\$ 82,467	\$ -	\$ -	\$ (82,467)
Office Rent	60,600	60,600	-	-	(60,600)
Office Costs	810	810	-	-	(810)
Professional Services	45,684	45,684	242,316	36,000	(9,684)
Miscellaneous	8,148	8,148	-	-	(8,148)
Depreciation	30,000	30,000	44,000	-	(30,000)
Total Operating Expenses	\$ 227,709	\$ 227,709	\$ 286,316	\$ 36,000	\$ (191,709)
Total Direct Expenses	\$ 1,112,132	\$ 1,112,132	\$ (209,336)	\$ 185,612	\$ (926,520)
Indirect Expenses	\$ -	\$ -	\$ -	\$ 74,629	\$ 74,629
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 1,112,132	\$ 1,112,132	\$ (209,336)	\$ 260,241	\$ (851,891)
Change in Assets	\$ 71,748	\$ 71,748	\$ 209,336	\$ -	\$ (1,775,530)
Fixed Assets					
Depreciation	(30,000)	(30,000)	(44,000)	-	30,000
Computer & Software CapEx	67,000	67,000	276,996	-	(67,000)
Furniture & Fixtures CapEx	-	-	2,176	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	\$ (37,000)	\$ (37,000)	\$ (235,171)	\$ -	\$ 37,000
Allocation of Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
Change in Fixed Assets	(37,000)	(37,000)	(235,171)	-	37,000
TOTAL CHANGE IN NET ASSETS	\$ 34,748	\$ 34,748	\$ (25,835)	\$ -	\$ (1,738,530)

Personnel Analysis

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

Total FTE's by Program Area	Budget 2010	Projection 2010	Direct FTEs 2011 Budget	Shared FTEs ¹ 2011 Budget	Total FTEs 2011 Budget	Change from 2010 Budget
NON-STATUTORY						
Operational Programs						
Protocol	5.0	5.0		0.8	0.8	-4.2
Total FTEs Operational Programs	5.0	5.0	0.0	0.8	0.8	-4.2
Administrative Programs						
	1.5	1.5		0.2	0.2	-1.3
Total FTEs Administrative Programs	1.5	1.5	0.0	0.2	0.2	-1.3
Total FTEs	6.5	6.5	0.0	1.0	1.0	-5.5

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

Reserve Analysis — 2010–2011

Working Capital Reserve Analysis 2010-2011	
NON-STATUTORY	
Beginning Working Capital Reserve (Deficit), December 31, 2009	0
Plus: 2010 Texas RE Funding (from LSEs or designees)	
Plus: 2010 Other funding sources	1,183,879
Less: 2010 Projected expenses & capital expenditures	(1,149,132)
Projected Working Capital Reserve (Deficit), December 31, 2010	<u><u>34,748</u></u>
Desired Working Capital Reserve, December 31, 2011	1 0
Less: Projected Working Capital Reserve, December 31, 2010	(34,748)
Additional funding required to achieve desired Working Capital Reserve	<u><u>(34,748)</u></u>
2011 Funding for Expenses and Capital Expenditures	260,241
Less: Other Funding Sources	(260,241)
Adjustment to achieve desired Working Capital Reserve	
2011 Funding (reserve adjustment)	<u><u>0</u></u>

¹ On xxxxxxxx, 20xx, the RE Finance and Audit Committee approved a desired working capital reserve of \$x,xxx,xxx. The reserve consists of the following components:

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



Section D

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

Statement of Activities and Capital Expenditures by Program 2011 Budget	Total	Statutory Total	Non-Statutory Total	Functions in Subjection Agreement										Non-Statutory Functions						
				Statutory Total	Reliability Standards (Section 300)	Compliance and Organization Registration and Certification (Section 401 & 505)	Reliability Assessment and Performance Analysis (Section 303)	Training and Education (Section 400)	Station Awareness and Security (Section 1003)	Committee and Member Forum	General and Administrative	Legal and Regulatory	Information Technology		Human Resources	Accounting and Finance	Non-Statutory Total			
Funding																				
Texas RE Funding																				
Texas RE Assessments	9,167,778	9,167,778	-	9,167,778	479,495	7,137,907	640,340	338,227	501,687	-	69,123	-	-	-	-	-	-	-	-	-
Penalty Sanctions	20,000	20,000	-	20,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Texas RE Funding	9,187,778	9,187,778	-	9,187,778	479,495	7,137,907	640,340	338,227	501,687	-	69,123	-	-	-	-	-	-	-	-	-
Non-statutory Funding	260,241	-	260,241	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	260,241
Membership Dues	27,500	27,500	-	27,500	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Services & Software	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Workshops	215,500	215,500	-	215,500	-	-	-	215,500	-	-	-	-	-	-	-	-	-	-	-	-
Interest	600	600	-	600	-	-	-	-	-	-	600	-	-	-	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Funding	9,691,619	9,431,378	260,241	9,431,378	479,495	7,137,907	640,340	554,727	501,687	-	117,223	-	-	-	-	-	-	-	-	260,241
Expenses																				
Personnel Expenses																				
Salaries	4,807,868	4,697,960	109,908	4,697,960	224,432	2,896,327	322,890	153,717	238,655	-	183,571	239,802	281,070	-	-	-	-	177,495	109,908	-
Payroll Taxes	424,757	415,003	9,754	415,003	19,937	256,174	28,734	13,631	21,227	-	15,047	21,302	23,196	-	-	-	-	15,755	9,754	-
Benefits	669,967	655,954	14,013	655,954	29,115	411,234	41,498	19,599	30,429	-	28,875	31,235	41,173	-	-	-	-	22,796	14,013	-
Retirement Costs	695,096	679,148	15,948	679,148	32,543	419,967	48,819	22,289	34,605	-	24,562	34,771	37,955	-	-	-	-	26,737	15,948	-
Total Personnel Expenses	6,597,677	6,448,065	149,612	6,448,065	306,026	3,983,703	439,941	209,236	324,916	-	252,055	327,110	383,295	-	-	-	-	341,783	149,612	-
Meeting Expenses																				
Meetings	234,300	234,300	-	234,300	3,700	-	-	215,500	-	-	13,100	-	2,000	-	-	-	-	-	-	-
Travel	322,753	322,753	-	322,753	9,987	245,078	8,685	301	1,268	-	44,094	6,551	3,805	1,363	1,619	-	-	-	-	-
Conference Calls	12,000	12,000	-	12,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Meeting Expenses	569,053	569,053	-	569,053	13,687	245,078	8,685	215,801	1,268	-	57,194	6,551	17,805	1,363	1,619	-	-	-	-	-
Operating Expenses																				
Consultants & Contracts	608,171	608,171	-	608,171	10,000	256,957	-	-	-	-	790	1,800	330,634	-	-	-	-	8,000	-	-
Office Rent	499,000	499,000	-	499,000	-	-	-	-	-	-	499,000	-	-	-	-	-	-	-	-	-
Office Costs	224,495	224,495	-	224,495	930	14,480	-	-	-	-	29,145	2,240	174,235	260	3,205	-	-	-	-	-
Professional Services	786,000	750,000	36,000	750,000	-	294,500	-	-	-	-	220,800	18,000	-	7,500	209,200	-	-	-	-	
Miscellaneous	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation	443,085	443,085	-	443,085	-	183,750	-	-	-	-	115,952	-	143,383	-	-	-	-	-	-	-
Total Operating Expenses	2,560,751	2,524,751	36,000	2,524,751	10,930	749,687	-	-	-	-	865,677	22,040	648,252	7,760	220,405	36,000	-	-	-	-
Total Direct Expenses	9,727,481	9,541,869	185,612	9,541,869	330,643	4,978,467	448,627	425,038	326,184	-	1,174,827	355,701	1,029,352	9,123	463,807	185,612	-	-	-	-
Indirect Expenses	(0)	(74,629)	74,629	(74,629)	147,018	2,285,130	202,990	137,317	185,825	-	(1,174,827)	(355,701)	(1,029,352)	(9,123)	(463,807)	74,629	-	-	-	-
Other Non-Operating Expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Expenses	9,727,481	9,467,240	260,241	9,467,240	477,662	7,263,597	651,617	562,355	512,019	-	-	-	-	-	-	-	-	-	-	260,241
Change in Assets	(35,862)	(35,862)	-	(35,862)	1,833	(125,691)	(11,276)	(7,628)	(10,323)	-	117,223	-	-	-	-	-	-	-	-	-
Fixed Assets																				
Depreciation	(443,085)	(443,085)	-	(443,085)	-	(183,750)	-	-	-	-	(115,952)	-	(143,383)	-	-	-	-	-	-	-
Computer & Software CapEx	290,000	290,000	-	290,000	10,000	185,000	-	-	-	-	-	-	95,000	-	-	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Equipment CapEx	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Inc/Dec in Fixed Assets	153,085	153,085	-	153,085	(10,000)	(1,250)	-	-	-	-	115,952	-	48,383	-	-	-	-	-	-	-
Allocation of Fixed Assets	(0)	(0)	-	(0)	8,167	126,941	11,276	7,628	10,323	-	(115,952)	-	(48,383)	-	-	-	-	-	-	-
Change in Fixed Assets	153,085	153,085	-	153,085	(1,833)	125,691	11,276	7,628	10,323	-	-	-	-	-	-	-	-	-	-	-
TOTAL CHANGE IN NET ASSETS	117,223	117,223	-	117,223	0	0	0	0	0	-	117,223	-	-	-	-	-	-	-	-	-
FTEs	50.00	49.00	1.00	49.00	1.97	30.62	2.72	1.84	2.49	-	0.74	2.99	2.60	1.03	2.00	1.00	-	-	-	-

Statement of Financial Position

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

Statement of Financial Position
2009 Audited, 2010 Projection, and 2011 Budget
STATUTORY and NON-STATUTORY

	(Per Audit)	Projected	Budget
	31-Dec-09	31-Dec-10	31-Dec-11
ASSETS			
Cash	2,551,152	2,486,927	2,314,151
Accounts receivable, net of allowance for uncollectible	1,756,745	-	
Other receivables	-		
Prepaid expenses and other current assets	-		
Security deposit	-	50,000	50,000
Cash value of insurance policies	-		
Property and equipment	536,424	1,836,424	1,759,140
Total Assets	4,844,321	4,373,352	4,123,290
LIABILITIES AND NET ASSETS			
Liabilities			
Accounts payable and accrued expenses	903,722	413,841	413,841
Deferred income	1,667,187	-	
Regional assessments collected in advance			
Regulatory Liability	1,736,122	-	
Accrued retirement liabilities			
Total Liabilities	4,307,032	413,841	413,841
Net Assets - unrestricted	537,289	3,959,511	3,709,449
Total Liabilities and Net Assets	4,844,321	4,373,352	4,123,290