



**Texas Regional Entity Statement of Activities and
Accomplishments in Carrying Out its
Delegated Responsibilities for the Period
January 1, 2007 – February 28, 2009**

April 1, 2009

Introduction

Pursuant to the regulations of the Federal Energy Regulatory Commission (FERC), 18 C.F.R. §39.3(c), the North American Electric Reliability Corporation (NERC) is required to submit an assessment of its performance three years from the date of NERC's certification as the Electric Reliability Organization ("ERO") for the United States of America. NERC must include in its self-assessment an assessment of the effectiveness of each Regional Entity. As part of the process of developing the Regional Entities' assessments, NERC has requested that each Regional Entity provide a Statement of Activities and Achievements for distribution and public comment.

Public comment on the first draft of NERC and the Regional Entities' Statement of Activities and Achievements to October 31, 2008 was solicited on January 14, 2009 via a questionnaire posted on the NERC Web site. Texas Regional Entity (Texas RE) reviewed the data and comments received in response to the questionnaire. This version of Texas RE's Statement of Activities and Achievements has been updated to include discussion on the areas for improvement identified by the first round of stakeholder feedback.

Background

Texas RE is a functionally independent division of Electric Reliability Council of Texas, Inc (ERCOT). As the independent system operator (ISO) for the region, ERCOT ISO manages the flow of electric power to 21 million Texas customers – representing 85 percent of the state's electric load and 75 percent of the Texas land area. ERCOT ISO schedules power on an electric grid that connects 38,000 miles of transmission lines and more than 550 generation units. ERCOT ISO also manages financial settlement for the competitive wholesale bulk-power market and administers customer switching for 6 million Texans in competitive choice areas. ERCOT is a membership-based 501(c)(4) nonprofit corporation, governed by a board of directors and subject to oversight by the Public Utility Commission of Texas and the Texas Legislature. ERCOT's members include consumers, cooperatives, independent generators, independent power marketers, retail electric providers, investor-owned electric utilities (transmission and distribution providers), and municipal-owned electric utilities.

Formerly ERCOT Compliance, Texas RE was created and began acting as a functionally independent division of ERCOT ISO on May 18, 2007, when Texas RE's approved delegation agreement with North American Electric Reliability Corporation (NERC) was filed with the Federal Energy Regulatory Commission (FERC). As mandated by its delegation agreement, Texas RE performs the regional entity functions described in the Energy Policy Act of 2005 for the ERCOT region. Texas RE is authorized by NERC to develop, monitor, assess, and enforce compliance with NERC reliability standards within the geographic boundaries of the ERCOT region.

I. Reliability Standards Development

A. Describe Regional Entity's activities and accomplishments in regional reliability standards development since January 1, 2007. Include discussion of improvements to activities and operations since January 1, 2007.

Texas RE facilitates the activities of the Reliability Standards Committee (RSC), which was formed in December 2007, as well as the implementation of the Texas RE Regional Reliability Standards Development Process, as described and approved in Texas RE's May 2007 delegation agreement.

Texas RE has facilitated the development of seven draft standards/procedural changes:

- SAR-001-TRE-02 – Provision for the ERCOT ISO to Participate and Have a Vote in the Processes (submitted December 2007) – revision of Texas RE Regional Standards Development Process.

During 2008, ERCOT ISO suggested revisions to the Standards Development Process by submitting SAR-001 to correct and further improve the balance of interests considered in the process. SAR-001 proposes that ERCOT ISO, which is the Reliability Coordinator, Balancing Authority, Transmission Service Provider, Transmission Operator, Interchange Authority, Resource Planner, and Planning Authority, become a segment and receive at least a portion of one vote. Other improvements to the Standards Development Process were added to this SAR, including a clarification that the Texas RE Board of Directors, instead of the ERCOT Board of Directors, approves all SARs. Initial comments to the changed procedure were received from the public in November 2008.

A Registered Ballot Body (RBB) was formed (with 46 members) for this SAR. In January 2009, this RBB voted on and passed the provisions of SAR-001 (with 37 of the 46 members voting), giving ERCOT a ¼ vote and making additional improvements to regional standards development processes. The ERCOT Board approved these provisions at its February 2009 meeting. The approved provisions also changed the approval authority in the ERCOT region from the ERCOT Board to the Texas RE Board. Currently, this Provision is at NERC for consideration at the May 2009 Board of Trustees meeting.

- SAR-002-TRE-01 – Development and Documentation of Regional UFLS Programs (submitted April 2008). This Standard Drafting Team (SDT) has been on hold while awaiting the national team's efforts. This SDT expects to re-convene in May 2009 to begin evaluating the potential for a regional variance to the proposed national standard.
- SAR-003-TRE-01 – FERC-Ordered Modification to ERCOT CPS2 Waiver to R2 of BAL-001-0 (submitted April 2008). This standard has been drafted and is currently out for public comment. The SDT is holding a technical workshop in March to help educate the ERCOT region on frequency response in general and how this standard will help ensure reliability with better frequency response.
- SAR-004-TRE-01 – ERCOT-Specific Sabotage Reporting Regional Standard (submitted in April 2008) was rejected by the RSC. Much of the reason for this SAR in the beginning was to include additional appropriate entities on the list of applicability. This may now be at least partially remedied by the proposed Joint Registration Organization (JRO) agreement that is being developed for the Load-Serving Entity (LSE) function, because it proposes to include Transmission Owners (TOs) in the list of applicability for this CIP-001 standard.
- SAR-005-TRE-01 – Remove LSE Applicability from EOP-002
- SAR-006-TRE-01 – Remove LSE Applicability from MOD-017 and MOD-018
- SAR-007-TRE-01 – Remove LSE Applicability from MOD-019, MOD-020 and MOD-021

Based upon advice and guidance by FERC staff that a regional standard cannot be used to remove a NERC function from a standard and that joint or concurrent registration should be used to address any regional issues causing applicability issues, on February 4, 2009, the RSC voted to suspend activity on SAR-005, SAR-

006 and SAR-007 to allow Texas RE time to attempt to facilitate a possible JRO agreement to address the applicability issues. Texas RE is continuing to facilitate a possible JRO through the LSE Registration Working Group.

An additional SAR for Disturbance Monitoring (PRC-002) was drafted but was then placed on hold until the continent-wide standard was further developed. The continent-wide standard has since been drafted and it appears that a regional standard on Disturbance Monitoring will not be necessary.

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

Texas RE staff participates in the NERC Standards Committee and Regional Reliability Standards Working Group and has contributed to the 2009-2011 NERC Work Plan. The Texas RE Manager of Standards was nominated and accepted into the NERC Communications and Planning Subcommittee of the NERC Standards Committee. In addition, the Texas RE staff screens draft reliability standards from other regions. Texas RE staff also screens proposed NERC standards that may have an impact on registered entities in the ERCOT region. To date, four proposed NERC standards have been screened and brought to the notice of RSC.

Texas RE informs stakeholders of the impact and requirements of emerging NERC standards through training at the Texas RE workshops (see Section III B). 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.

Texas RE faces the challenge of the upcoming change in the ERCOT region systems from zonal to nodal. Texas RE staff participates in Nodal Protocol/Reliability Standards Alignment (NPRSA) Working Group, the ERCOT region taskforce organized to align changes in the ERCOT Protocols language for the nodal market with NERC language. Due to delays in the implementation of the nodal market, this working group was recently put on hold until the nodal implementation is complete.

B. Explain how the Regional Entity has the ability to develop regional standards and has a standards development process that provides for openness, due process and balancing of interests.

The Texas RE Standards Development Process, as approved by NERC and FERC as Exhibit C to Texas RE's Delegation Agreement with NERC, provides for openness, due process, and balancing of interests. Participation in Texas RE's Standards Development Process is open to all organizations that are materially affected by the ERCOT region bulk power system (BPS), with no undue financial barriers, and any such entity has the right to participate by expressing an opinion, having its opinion considered, and having the right to

appeal. Notice of all meetings of the Texas RE RSC and all drafting teams are provided on the Texas RE website and are open to the public.

The Texas RE Standards Development Process provides for a balance of interests, containing seven market segments and a requirement of a vote of at least two-thirds of the segments for approval of any regional standard. SAR-001 proposed to add an additional market segment, with a ¼ vote, for ERCOT ISO. No two segments can dominate, and no single segment can defeat any matter. In addition, each of the current seven segments has at least two representatives on the RSC. In 2008, 40 entities joined the RBB, representing about 25% of all ERCOT region members.

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

C. State Regional Entity's assessment of its own effectiveness in reliability standards development since January 1, 2007. If effectiveness has changed over this period (either improved or worsened), this should be discussed.

Texas RE's effectiveness in reliability standards development has steadily improved since its Delegation Agreement was approved in April 2007. Texas RE's first hurdle was to educate the users, owners, and operators of the BPS of the Standards Development Process and the need for involvement in the process by all industry segments. Texas RE primarily used its website and two 2007 Texas RE Standards and Compliance Workshops to begin to educate and inform ERCOT Market Participants about the Standards Development Process. Industry interest, participation, and understanding of the Standards Development Process have grown, particularly after the RSC was formed in December 2007.

Beginning in spring 2008, Texas RE made great strides in its efficiency and effectiveness. Texas RE worked with other regional entities to launch the Regional Standards Tracking Site described above. This tool greatly improves the efficiency by which standards can be presented and evaluated by all stakeholders, as well as allowing comments to be gathered from across the ERCOT region and votes to be easily compiled from RBB members. Texas RE also began its e-newsletter, which communicates updates, status, and other information about standards to stakeholders. Finally, Texas RE also added a new Standards Coordinator position late in the spring 2008, which allowed Texas RE to further improve the efficiency of all standards-related tasks.

Texas RE standards development staff also participated in the four 2007 and 2008 Texas RE Standards and Compliance Workshops to communicate and educate stakeholders about standards development.

D. State any proposals of Regional Entity to improve its effectiveness in reliability standards development

Texas RE Reliability Standards staff is leading the RSC in developing a scope of work for the RSC to include more comprehensive review and comment to the existing and proposed NERC standards under development for tracking of possible regional variances that may be necessary with the associated continent-wide efforts. Texas RE Standards staff presented the RSC with the 39 standards development projects in the current NERC

workplan and asked the RSC to rank them in importance. Ten projects emerged as most important to the ERCOT region. The RSC plans to have subject matter experts (SMEs) make one presentation each month on the 10 projects for evaluation as to any potential regional standard that may be necessary. A presentation on NERC Project 2006-03 System Restoration and Blackstart (EOP-005, 006, 007 and 009) was made at the March RSC meeting.

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

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

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

A regional-wide announcement was sent out in December 2008 to update and solicit more RBB registrations, to ensure wider participation by all segments. This announcement was part of the ballot pool solicitation and formation efforts for SAR-001. This resulted in the 46 RBB members as of February 28, 2009,

Texas RE Reliability 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 stakeholders. Texas RE has already begun participating in the NERC Communication and Planning Subcommittee, the first meeting of which was held on March 16, 2009.

II. Organization Registration and Compliance Monitoring and Enforcement Program

- A. Describe Regional Entity's activities and accomplishments in OC/CMEP since January 1, 2007. Include discussion of improvements to activities and operations since January 1, 2007. This description should emphasize quantitative information, e.g.: Staffing; numbers of registered entities registered; numbers of workshops, seminars, training and education sessions, etc. conducted; numbers of compliance audits conducted and reports processed; numbers of other compliance processes conducted and processed, e.g., spot-checks, self-certifications, etc.; numbers of notices of violation issued and processed; numbers of mitigation plans processed.**

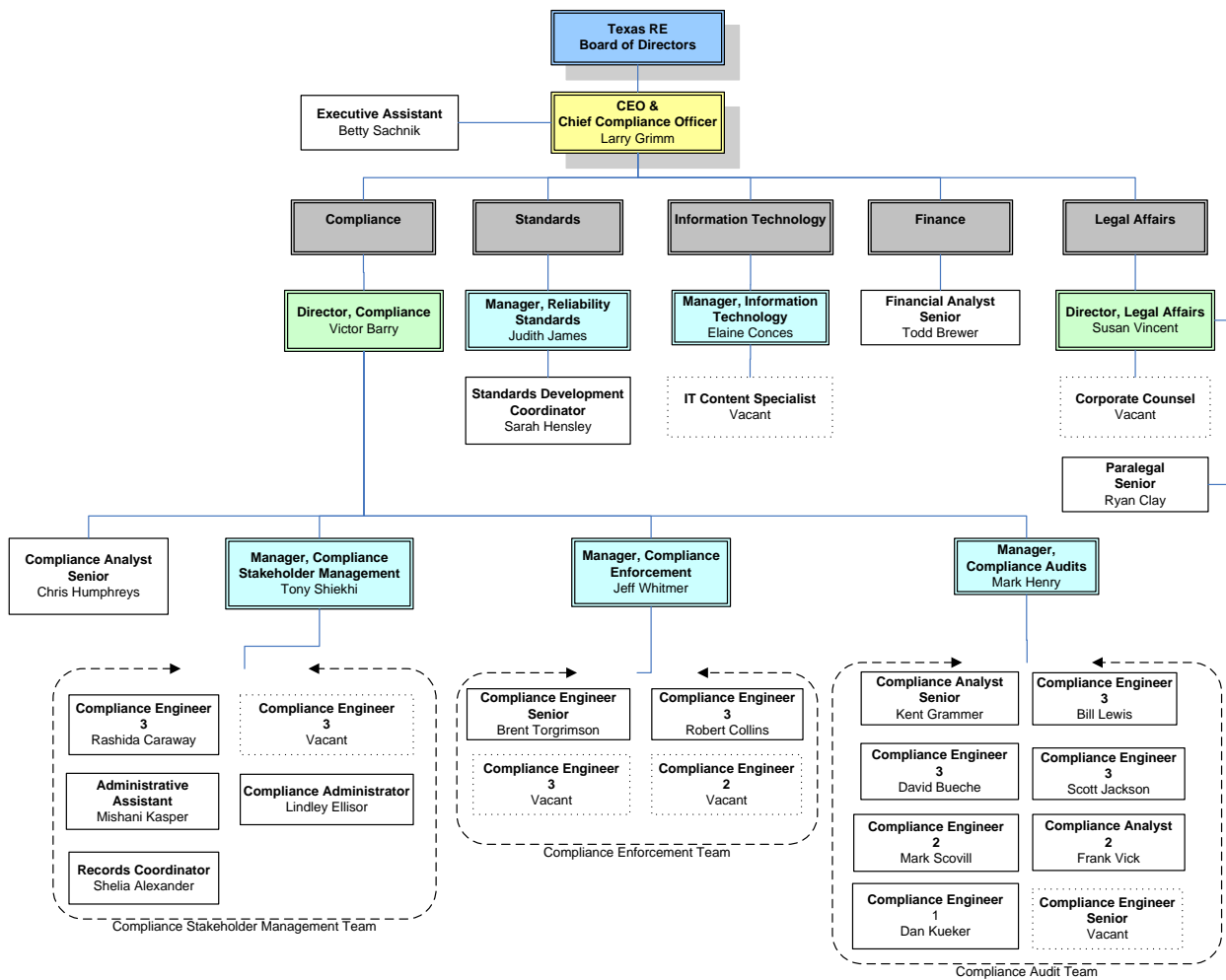
Texas RE staffing has increased steadily since January 1, 2007, when Texas RE had only nine (9) compliance employees. At the beginning of 2008, Texas RE had 11 compliance employees, but by December 2008, Texas RE grew to 17 full time employees and one part time intern for the Organization Registration and Compliance Monitoring and

Enforcement Program area (out of 25 total full time staff for all of Texas RE). At year-end of 2008 Texas RE reached 100% of planned staffing levels, but it did operate for most of 2008 with several vacancies due to the difficulty of locating and recruiting experienced candidates and turnover.

For 2009, Texas RE's board approved 5 new positions to reach 22 full time positions for the Organization Registration and Compliance Monitoring and Enforcement Program area (one of which was filled by February 28, 2009). The Compliance area has one Director and the divisions have the following employee positions:

- Compliance Auditing: 9 positions (one open)
- Compliance Enforcement: 5 positions (two open)
- Compliance Stakeholder Management (including Registration and Certification): 6 positions (one open)
- Critical Infrastructure Protection: 1 position

Texas RE Organizational Chart



Organization Registration and Certification

Texas RE has 212 registered entities, registered for 326 Functions, as of February 28, 2009. Registration activity continues to evolve with modifications to entities' registrations related to changes in their businesses, joint registration organization (JRO) agreements, and changes to the registration criteria (e.g. LSE). Texas RE experienced two major registration disputes, one of which was appealed to and is still pending with FERC. The time expended on each registration appeal has been significant, but the hope is that registration disputes should reduce over time, as long as the NERC functions and registration criteria do not change.

Registration activities have continued to require much more time than anticipated by Texas RE. Texas RE acknowledges the stakeholder comments received regarding the timeliness of the Texas RE registration process. Texas RE will attempt to add additional administration resources to supplement its registration staff, since the additional workload from new and modified (due to mergers, acquisitions, and turnover in registered entity personnel) registrations is not expected to reduce.

Due to the market design of the ERCOT region, no entities have been registered for the LSE function while Texas RE works with the stakeholders to develop a solution that eliminates all gaps and minimizes overlap. Texas RE has facilitated the NERC Load Serving Entity Working Group (LSEWG) for the past five months, to obtain stakeholder feedback and try to achieve a region-wide JRO agreement for the LSE function in the ERCOT region. Although this effort has required a large time commitment from a variety of Texas RE staff, this process has enabled significant communications regarding registrations in areas where the ERCOT deregulated market model appears to conflict with the NERC Registration Criteria. Texas RE anticipates that it will have an increase in registered entities once LSEs are identified and registered, but it hopes to have reduced the potential registration disputes through the LSEWG communications.

Compliance Monitoring and Enforcement

Please see section III.B.1. for a description of the workshops, seminars, training and education sessions.

Since January 1, 2007, Texas RE has conducted and processed the following:

- Audits: 59 (5 pre-June 18, 2007)
- Spot-checks: 23
- Self-certifications: 383
- CIP self-certifications: 292
- Complaints: 3 related to NERC standard violations
- Compliance Violation Investigation (CVI): initiated 1 Texas RE led and 1 NERC-led
- Self Reports processed: 91 (79 pre-June 18, 2007)

Texas RE is in the process of negotiating or completing settlement agreements with six (6) entities for 18 violations. Settlements with two entities for four (4) violations have been conditionally approved by NERC BOTCC.

Summary of the number of violations assessed and processed between January 1, 2007 and February 28, 2009:

Violation Timeframe	Number of Possible Violations Reviewed	Preliminary Notice of Alleged Violations	Notices of Alleged Violation Filed w/ NERC (#Violations)	Notices of Confirmed Violation Filed w/ FERC (#Violations)	Number of Violations Complete
2007 Pre-June 18	206	N/A	206	N/A	206
2007 Post-June 18	28	28	28	21	21
2008	44	38	3	0	0
2009	4	0	0	0	0

Summary of the number of mitigation plans processed to February 28, 2009:

Mitigation Plan Progress (for the below Violation Date Periods)	Number of Violations with Mitigation Plans Submitted	Number of Violations with Accepted and Approved by NERC Mitigation Plans	Number of Violations with Mitigation Plans Certified as Complete by Entity	Number of Violations with Mitigation Plans Verified as Complete by Texas RE
2007 Pre-June 18	206	206	205	100
2007 Post-June 18	28	28	23	22
2008	35	6	23	21
2009	0	0	0	0

B. Describe how the Regional Entity has the ability to enforce reliability standards and to provide for an adequate level of bulk power system reliability in its region.

Texas RE is following the requirements as defined by the CMEP, Rules of Procedure (ROP), and the delegation agreement between Texas RE and NERC and has used these documents to create the framework for auditing, investigating and enforcement of reliability standards.

AUDITING: Texas RE has created and implemented an audit program designed around the required 3 and 6 year audit cycles and remains 100% on schedule with this plan. Texas RE also uses the complete list of NERC-approved Actively Monitored Standards and Requirements as a minimum audit scope. Texas RE has also required all Compliance employees, not just the auditors, to complete the NERC required training

classes for auditors so that all employees have a general understanding of the significance of the auditing process.

ENFORCEMENT: In addition to the Auditing program, Texas RE has implemented a separate Enforcement program with dedicated staff. The Enforcement group processes alleged violations originating from audits, spot-checks, self-certifications, complaints, self reports, and CVIs. This includes managing settlement negotiations and hearings associated with contested violations. The Texas RE Enforcement Program is also responsible for investigating potential reliability standards violations arising from BPS disturbances, outages, self reports and complaints.

CONSISTENCY & COORDINATION: Texas RE also fully participates in multi-region forums to share information related to best practices as they relate to the successful implementation of compliance auditing and enforcement. These include the Regional Entity Compliance Implementation Group (RCIG) (and associated working groups), and the Organization Registration and Certification Subcommittee (ORCS). Texas RE currently chairs the RCIG, whose main purpose is to foster cooperation and coordination, and improve consistency between the regions. The RCIG directs the activity of its working groups. Texas RE also participates in the Regional Entities Management Group whose members are the chief executives of each region and oversee all program areas, including compliance and standards development.

Texas RE also directly participates in many ERCOT committees, such as ERCOT's Technical Advisory Committee (TAC), Reliability & Operating Subcommittee (ROS) and the Wind Operating Task Force (WOTF), among others, to understand and track the reliability issues and challenges for the region and to provide comments from the Texas RE perspective when there are potentially significant reliability issues and challenges that are not being adequately considered and addressed. This proactive approach to monitoring and supporting reliability in the region has expanded in 2008 as staffing increased. Texas RE's direct involvement, most recently with wind generation issues, has greatly increased the visibility of reliability issues and expedited the implementation of regional rules (ERCOT Protocols) to strengthen reliability.

C. Describe how the Regional Entity has fair and impartial procedures for enforcing reliability standards

Texas RE has adopted and implemented the NERC Uniform Compliance Monitoring and Enforcement Program (CMEP) in accordance with its Delegation Agreement with NERC. Texas RE is committed to the following five (5) guiding principles:

1. Independence
2. Ethics & Integrity
3. Inclusiveness
4. Fairness & Openness
5. Organizational Effectiveness & Efficiency

Texas RE strives to be fair, unbiased and balanced in its actions and approach to enforcing reliability standards and acts to remain above suspicion with regard to independence and ethical issues. Texas RE internal procedures incorporate these concepts. To provide a second level of checks and balances, Texas RE requires that all violations be reviewed and verified by a group other than the group that initially identified the alleged violation. It was partially for this reason that the Enforcement group was

separated from the Audit group. In addition, all potential violations and penalties are reviewed by Texas RE Legal, the Director of Compliance and the CEO prior to issuance.

In addition, NERC provides regular oversight of the Texas RE audits and its related processes and procedures. This oversight provides yet another level of review of Texas RE's work for fairness, impartiality, and consistency. Texas RE also regularly engages in discussions with NERC staff about significant violations, prior to its issuance of penalties. This provides another level of oversight with respect to impartiality and fairness as well as striving to remain consistent with other regions.

All Texas RE employees and consultants must identify all potential relationships to or conflicts with market participants or registered entities and sign an Ethics Agreement verifying their compliance with Texas RE's Code of Conduct. Texas RE follows the CMEP requirements to provide biographies of all potential auditors prior to an audit to allow the entity to be audited to review these biographies and object to any potential or perceived conflicts that could impair fairness or impartiality. Texas RE also internally bars any employee from working on any compliance work related to an entity for which they have had a relationship for at least a 6 month separation period. Texas RE's Code of Conduct requires that there be no financial relationship with a registered entity and bars involvement on any compliance work for an entity where there is a personal or family relationship.

Texas RE has implemented a Compliance Hotline to allow anyone to report compliance or ethics complaints related to Texas RE, its employees or consultants, or a registered entity. The Hotline process is designed to direct any complaints to Texas RE Legal or the board of directors as appropriate, based on the complaint. To date Texas RE has received no complaints from the Compliance Hotline and has received no complaints of any kind regarding any failure of fairness or impartiality. Because Texas RE also performs non-statutory compliance functions for the Public Utility Commission of Texas (PUC), the PUC also maintains oversight to ensure that Texas RE's non-statutory compliance is performed in a fair and impartial manner.

At the end of every audit, Texas RE provides the NERC Questionnaire to allow the audited entity to directly report to NERC any concerns with fairness, objectivity or balance, in addition to other quality measures, with respect to how Texas RE carries out its auditing function.

D. State Regional Entity's assessment of its own effectiveness in OC/CMEP since January 1, 2007. If effectiveness has changed over this period (either improved or worsened), this should be discussed

Texas RE's effectiveness has continuously improved over time through the enhancement of our internal processes, refinement of our organizational structure, the growing maturity of the understanding of the NERC processes, and the addition of talented staff. Added to this is our concerted effort to improve our communications with the other regions, NERC, FERC, and the registered entities which has resulted in greater efficiency and fewer misunderstandings.

As evidence of Texas RE's continuous improvement, all 2007 and 2008 audits, investigations, violations and mitigation plans are either closed or are on schedule with regularly monitored plans to meet milestones. Due to the complexity of some settlement negotiations, some preliminary violations have remained open for longer than originally

anticipated. Implementing all procedures necessary to reach final NERC approval on violations and settlements has taken longer than anticipated in many instances. The work load increased throughout 2008. Texas RE has been able to improve its process efficiency with the growing maturity of the Texas RE and NERC organizations, but most Texas RE staff still must work long hours to maintain the required schedule. The work load is expected to increase again in 2009, due to new registrations, CIP standards moving toward enforceability and the audit of Texas RE by FERC; so, Texas RE will seek to hire all additional personnel as early in the year as possible.

In 2008, Texas RE and five (5) other regional entities formed a Consortium User Group to collaborate on and share resources for the development, modification and maintenance of portal software. As part of the Consortium User Group, Texas RE is actively participating in collaborative projects to improve the portal and to add new useful features, such as alleged violation tracking. Texas RE is also participating in a Consortium User Group project to allow its portal to communicate directly with NERC's portal when the NERC portal comes on-line. Texas RE anticipates that improvements and additions to the portal will address the stakeholder comments requesting more electronic tools to improve efficiency.

E. State any proposals of Regional Entity to improve its effectiveness in OC/CMEP.

Texas RE acknowledges stakeholder comments about the application of the NERC Registration Criteria in the ERCOT region, given the statutory, market, and system design differences. Texas RE believes that the use of the stakeholder LSEWG to help craft a solution for LSE registration in the ERCOT region to address all standard requirements without any reliability gaps has been useful. This cooperative effort between Texas RE, registered entities, and NERC has proven to be an efficient method to identify needed variances to NERC standards, regional standards, and JRO agreements that can effectively address reliability needs. Texas RE will continue to communicate with and answer questions of stakeholders regarding registrations, at its Compliance Workshops, in newsletters, and as needed, with specific groups of stakeholders.

Texas RE believes that the best means to improve effectiveness of the CMEP is for NERC and the regional entities to continue to consistently communicate and coordinate regarding new issues as they are identified or to address any confusion that may arise due to changes in standards, processes or interpretations. Even though the reliability standards have been enforceable for 20 months, they are still relatively new for both registered entities and the auditors. Implementation of the NERC Compliance Portal and its integration with the Texas RE portal, which is in-process, should also help to continuously improve Texas RE's efficiency and effectiveness. Texas RE anticipates that these portal improvements will address the stakeholder requests for electronic tools to improve efficiency.

III. Other Program Areas

A. Reliability Readiness Evaluation and Improvement Program

- 1. Describe Regional Entity's activities and accomplishments in Reliability Readiness Evaluation and Improvement since January 1, 2007, including discussion of improvements in this area.**

One Reliability Readiness Evaluation (of ERCOT ISO) was conducted in the ERCOT region. ERCOT ISO is the only RC/TOP/BA in the region.

- 2. State Regional Entity's assessment of its own effectiveness in Reliability Readiness Evaluation and Improvement since January 1, 2007. If effectiveness has changed over this period (either improved or worsened), this should be discussed.**

Texas RE's effectiveness with respect to Reliability Readiness Evaluations has not changed since 2007. Texas RE's Reliability Readiness Program has operated effectively, but only one Registered Entity has been subject to these evaluations. NERC is now phasing out this Program.

- 3. [Discussion of proposed improvements not needed, since this program is being phased on in the first quarter of 2009.]**

N/A.

B. Training, Education and Operator Certification

- 1. Describe Regional Entity's activities and accomplishments in Training, Education and Operator Certification since January 1, 2007, including discussion of improvements in this area.**

Number of workshops, seminars, training, and education sessions conducted since January 1, 2007:

- Standards and Compliance workshops - 4
- CIP workshops – 2
- Operations Training Seminar Sessions – 14

In addition to compliance workshops, Texas RE staff also facilitates the ERCOT Operator Certification Program. This includes maintaining and updating the ERCOT Fundamentals Training Manual and administering the System Operator testing process.

Texas RE has implemented a website (www.texasre.org) that provides direct public access to information about Texas RE. The site includes audit schedules, documents, newsletters, announcements, and important links to other sites, such as NERC's.

Texas RE has also established a bi-monthly newsletter that is published on our website and is sent via email to registered entities and all others who have subscribed to the Texas RE's email list.

In addition, Texas RE has also participated in numerous industry sponsored seminars and panels (e.g. National Rural Electric Cooperative Association, Gulf Coast Power Association, and Wind Coalition) to provide as much information to the industry as possible as well as to receive feedback.

Texas RE's training program continues to improve and consistently receives favorable reviews from participants. With few exceptions our workshops and seminars are fully

subscribed. We have added the ability to support remote attendance using call-in numbers and WebEx presentations this year.

- 2. State Regional Entity's assessment of its own effectiveness in Training, Education and Operator Certification since January 1, 2007. If effectiveness has changed over this period (either improved or worsened), this should be discussed.**

Over time Texas RE has added additional topics to its training program, such as the recent CIP Workshops, and has provided greater depth to our traditional Reliability Standards workshops through the greater use of panel sessions and lessons learned segments.

Texas RE's operations training seminars continue to run at full capacity with some attendance from industry participants from outside our region, due to the quality of the seminars.

Texas RE strives to support and speak at seminars in the ERCOT region held by other organizations, in order to provide the most information to the widest possible group of people.

- 3. State any proposals of Regional Entity to improve its effectiveness in Training, Education and Operator Certification.**

Texas RE will continue to request, review, and incorporate helpful feedback from stakeholders regarding Texas RE's training, education, and operator certification programs. Texas RE will also modify these programs as needed to incorporate any changes to NERC standards or procedures.

C. Reliability Assessment and Performance Analysis Program

- 1. Describe Regional Entity's activities and accomplishments in Reliability Assessment and Performance Analysis since January 1, 2007, including discussion of improvements in this area.**

Texas RE has established a role in cooperation with the technical subject matter experts at ERCOT ISO and registered entities on the preparation of seasonal and annual long term planning assessments. Texas RE reviews the reports for completeness prior to forwarding to NERC. Similarly, Texas RE staff works with the region's Reliability Coordinator (ERCOT ISO) to monitor system events for possible violations and reliability risks. Texas RE often requests data and analysis from the ERCOT ISO to assist in the determination of the root cause of events, and any new trends or potential risk to the BES. In addition, Texas RE also monitors reliability studies and reports from ERCOT stakeholder organizations, such as the Reliability and Operations Subcommittee (ROS) for potential risks or analysis of events.

Texas RE attends ERCOT committees, such as ERCOT's Technical Advisory Committee (TAC), Reliability & Operating Subcommittee (ROS) and the Wind Operations Task Force (WOTF) to better understand the reliability issues and challenges for the ERCOT region and to provide comments from the Texas RE perspective when it believes there are significant reliability issues and challenges that are not being adequately considered or addressed. This proactive approach to

monitoring and supporting enhancements to Protocols and Operating Guides that enhance reliability or support NERC goals in the ERCOT region has expanded in 2008 as staffing increased. Texas RE's direct involvement, for example with wind generation issues, has greatly increased the visibility of new reliability issues and expedited the implementation of regional rules to strengthen reliability.

Texas RE also regularly communicates with NERC staff regarding reliability challenges of special interest in the ERCOT region (e.g. wind generation) to keep NERC apprised of risks, improvements, and on-going strategy.

On a monthly basis, Texas RE also calculates and reports on a variety of reliability performance metrics (e.g. Regional (ERCOT Protocol) measures and NERC Reliability Standards measures) to its Board of Directors. Texas RE also uses this information, when appropriate, to identify potential standards violations or declining reliability trends that need to be investigated.

2. State Regional Entity's assessment of its own effectiveness in Reliability Assessment and Performance Analysis since January 1, 2007. If effectiveness has changed over this period (either improved or worsened), this should be discussed.

Texas RE has significantly improved in its effectiveness in this area. In 2008, as staff was added, Texas RE became much more proactive in assessing and addressing reliability performance issues. As with most new programs, a great deal of effort has gone into defining how to best work with the ERCOT ISO and other stakeholders to build this program and to increase Texas RE's ability to effect change before reliability is adversely impacted or violations occur. A key goal is to facilitate proactive consideration of matters important to reliability that may not yet be part of the mandatory requirements in NERC's developing reliability standards.

3. State any proposals of Regional Entity to improve its effectiveness in Reliability Assessment and Performance Analysis.

Texas RE plans to use a continual process improvement plan for Reliability Assessment and Performance Analysis. This will be driven by the maturation of existing relationships within the region and the further strengthening of staff in 2009.

D. Situational Awareness and Infrastructure Security Program

Note: Although Situational Awareness and Infrastructure Security is one of the program areas designated for a lesser amount of discussion in this template, Regional Entities that are actively performing the Reliability Coordinator function as a statutory function should provide more extensive discussion of that activity.

1. Describe Regional Entity's activities and accomplishments in Situational Awareness and Infrastructure Security since January 1, 2007, including discussion of improvements in this area.

Situational Awareness takes several forms for Texas RE and can most accurately be differentiated by the time frame related to awareness. To support awareness for real time events and emergencies Texas RE has staff assigned to track and monitor ERCOT ISO status, briefings and email updates and also participates in

teleconferences for emergency situations, such as the hurricane that struck the Houston/Galveston area in 2008. To support long term Situational Awareness, Texas RE also monitors changes to the ERCOT BPS and how the ERCOT region is addressing these changes. A primary example of this type of Situational Awareness would be Texas RE's activities with respect to the growth of wind power in the region and how it will affect the reliability of the BPS.

Texas RE also worked with ERCOT ISO to provide real-time data to the FERC Situational Awareness center in Washington D.C., and began constructing its own Situational Awareness room in March of 2009 to enable system monitoring and awareness.

- 2. State Regional Entity's assessment of its own effectiveness in Situational Awareness and Infrastructure Security since January 1, 2007. If effectiveness has changed over this period (either improved or worsened), this should be discussed.**

Texas RE has continued to improve its efforts related to Situational Awareness. A key enabler was the addition of staff and the maturation of our core audit, enforcement and registration programs that allowed us to add more focus on Situational Awareness. Texas RE was also able to add a full-time critical infrastructure protection (CIP) specialist employee in 2008. The CIP specialist has been instrumental in participating in national CIP program development and the creation of a CIP program for Texas RE.

- 3. State any proposals of Regional Entity to improve its effectiveness in Situational Awareness and Infrastructure Security.**

Texas RE has begun building an improved Situational Awareness system in our new facility. This will enable Texas RE to better display and more efficiently analyze the real-time feeds of data from the ERCOT ISO and to provide better insight into the current state of the ERCOT BPS.

E. Budgeting

- 1. Describe Regional Entity's activities and accomplishments in the development and submission of its annual business plan and budget, beginning with the 2007 business plan and budget.**

Texas RE successfully obtained NERC and FERC approval of both its 2007 and 2008 business plans and budgets and conditional approval of its 2009 business plan and budget. Similarly to the other regional entities and NERC, Texas RE has been able to improve its budgeting estimates and processes since its submission of its 2007 business plan and budget, primarily because the expectations of regional entities have become clearer over the past two years and Texas RE has gained experience in performing regional entity duties.

Texas RE followed NERC guidance and used NERC templates when it prepared its 2007 business plan and budget. At the time all 2007 regional entity budgets were developed, however, NERC and FERC expectations about regional entity performance were just beginning to evolve. No regional entity had experience in performing duties as a regional entity and Texas RE had no dedicated finance

employees. Texas RE's 2007 business plan and budget was in accordance with NERC guidance, but it projected significantly higher than the actual expenditures. The primary reason for this positive variance was because this budget anticipated a full year of operations, but (a) Texas RE's Delegation Agreement was not conditionally approved by FERC until April 2007; and (b) per FERC order, the implementation of mandatory standards did not begin until June 2007. Because of this, Texas RE delayed increasing its staffing until mid-2007 and the implementation of its capital (hardware and software) projects until 2008. In addition, Texas RE had a more difficult time than anticipated in locating and hiring qualified staff, so it experienced unintended vacancies through mid-2008.

Since 2007, Texas RE gained experience as it performed its registered entity duties, in accordance with its Delegation Agreement, the NERC Rules of Procedure, NERC guidance, and FERC orders. All Texas RE employees track their time, using electronic timesheets incorporating the functional categories in the NERC Chart of Accounts and separating time spent on non-statutory duties. Each employee must submit a timesheet twice monthly, in accordance with the payroll cycle.

In 2008, Texas RE implemented budgeting and accounting guidelines, along with its other corporate and governance policies and procedures. In mid-2008, Texas RE improved its time tracking consistency by developing and providing additional training to its employees on time and expense guidelines. These guidelines were shared with NERC and the other regional entities.

As Texas RE's experience as a regional entity has grown, the time tracking system has captured the amount of time Texas RE employees spend working in each functional area. This allows Texas RE to more accurately budget for future periods. Texas RE acknowledges that the expectations and requirements of Texas RE and the other regional entities will likely continue to evolve over the next few years, but Texas RE's budget procedures and time tracking system should continue to help Texas RE to produce quality budget projections, to the extent any modifications to its duties are known.

Texas RE followed all NERC guidance and templates in preparing its 2008 business plan and budget. Because Texas RE was required to prepare and obtain board approval for the business plan and budget in mid-2007 and the reliability standards became mandatory in June 2007, Texas RE still had only a partial year of experience at the time of the 2008 budget preparation. The 2008 budget development process was improved because (a) Texas RE, NERC, and the other regional entities had the benefit of FERC orders on the 2007 budgets; (b) Texas RE hired a financial analyst; and (c) NERC, Texas RE, and the other regional entities met to discuss and gain general consensus on the budget requirements, given the short history of the regional entity organizations.

Texas RE makes it a priority to diligently and effectively communicate with NERC regarding all required financial reports. Texas RE will continue to keep this as a priority and will continue to provide all required financial reports on or before the date due.

In 2008, Texas RE established a separate cash investment account for the segregation of any fines and penalties, to ensure such monies are not commingled

with operating funds. In coordination with NERC and the other regional entities, Texas RE established a process for the accounting of fines and penalties.

Texas RE's 2009 business plan and budget is improved over its previous budgets, because Texas RE has gained significant performance experience and has the benefit of understanding the time required for all of its regional entity duties. Further, NERC and the regional entities spent even more time meeting and discussing the NERC templates and the procedures to be followed by the regional entities in their budgeting process, which improved the consistency of the business plans and budgets.

Texas RE followed all NERC guidance and templates in preparing its 2009 business plan and budget and was required to obtain Texas RE board approval before the final submission to NERC. In addition to process improvements made by NERC for the 2009 business plan and budget process, Texas RE leveraged improvements made to its time-tracking and financial operations implemented in 2008 to further improve the process for 2009. Texas RE has and will continue to make improvements to its financial function and it is confident that these changes will enhance future period budget requests.

2. State Regional Entity's assessment of its own effectiveness in developing its business plans and budgets and in the submission of its business plans and budgets in a consistent manner with NERC and the other Regional Entities.

Texas RE's effectiveness in developing and submitting business plans and budgets in a consistent manner with NERC and the other regional entities has steadily improved with each filing. For all of its submitted business plans and budgets, Texas RE has followed NERC guidance and templates, attended all scheduled budgeting meetings with NERC and the other regional entities, and had numerous discussions with NERC and the other regional entities regarding the preparation of the business plans and budgets. As the NERC and regional entity experience has grown, NERC improved its processes and templates and hosted more discussions with the regional entities to try to improve the consistency of the business plans and budgets. Overall, Texas RE's business plan and budget was very consistent with NERC guidance and the other regional entities.

Texas RE will continue to work with the other regional entities to strive for even greater consistency in budgeting and in the creation of uniform metrics. The improvement in the consistency of the nine start-up entity business plans and budgets, as expectations and duties for these entities have continued to evolve over the past two years, seems quite good. Due to the varying structures of the regional entities, there could still be differences in how each organization prepares its respective operating budgets, but, particularly in light of the October 16, 2008 FERC Order on the 2009 business plans and budgets, the regional entities will continue to discuss and harmonize any remaining differences with NERC and each other.

3. State any proposals of the Regional Entity to improve its effectiveness in submitting effective, adequate and consistent business plans and budgets.

- Texas RE suggested that NERC and the regional entities use generally accepted accounting principles to increase the level of consistency in the business plans and budgets. This requires NERC and each regional entity to prepare an

operating budget and a separate capital expenditures budget. This will occur for each region's 2010 Business Plan & Budget.

- Texas RE believes that NERC and the regional entities need to standardize language and expectations regarding the acceptable components of indirect costs so that the regions can consistently budget certain expenses as either indirect (overhead) or direct (functional). With two full years of experience, and in accordance with FERC guidance, NERC and the regional entities should be able to implement a uniform expense allocation that will enhance consistency among the regional entities and NERC.
- Texas RE suggests NERC consider implementing a uniform budgeting tool, in place of the NERC-supplied Excel spreadsheet templates, to capture and project expected budgetary needs for each region. Due to the complexity of budgeting to the function level for so many entities, it would be useful if a common tool could be used by NERC and all regional entities. This could help improve efficiency and consistency by allowing each organization to prepare its budgets in a more automated fashion.
- Texas RE believes that the adoption of uniform metrics would enable the identification of trends that would be useful for projecting future resource needs. NERC and the regional entities have already started making efforts toward this goal.
- Texas RE plans to further enhance its time-tracking system, to add additional departmental codes, which will add additional detail to the financial data that will further enhance management and financial reporting capabilities. This enhancement will be in compliance with the NERC Chart of Accounts, and is expected to be useful in aiding management decision making.
- Additionally, given the experience of all the regional entities, and with the hope that its processes and templates will need fewer changes during 2009, Texas RE hopes to have time to work with other regional entities to identify and determine trended and comparative financial results for the 2009 operating year which will enhance the consistency of the regional entities' future business plans & budgets.