



PUCT Workshop

ERCOT Compensation Overview

June 8, 2006



Presentation Outline

1. Completed Changes
2. Challenges
3. Revised Compensation Strategy
4. Work Plan
5. Recommendations



Completed Changes



Impact of Completed Changes

Action	Potential Savings
Revised benefit plan design	\$1,000,000
Eliminated tuition reimbursement program	\$15,000
Eliminated leadership training	\$195,000
Eliminated employee events	\$60,000
Revised relocation program	\$300,000
TOTAL	\$1,570,000



Challenges



Markets ERCOT Competes Within

Job Functions

Talent pool is drawn primarily from private and public entities in Texas and surrounding areas

EXAMPLES
Human Resources
Finance
IT Support
Administrative
Legal
Internal Audit

Market

ERCOT's geographic area

Job Functions

Specialized or advanced skill sets

EXAMPLES
System Operations
Transmission Planning
Infrastructure Design
Applications Development
Data Warehousing
NERC/FERC Expertise
Management

Market

Nationwide

Recruitment Challenges

*Thin Pool of
Experienced
Applicants*

*Candidates
Considering
Multiple
Offers*

*Candidates
Offered
Hiring
Bonuses*

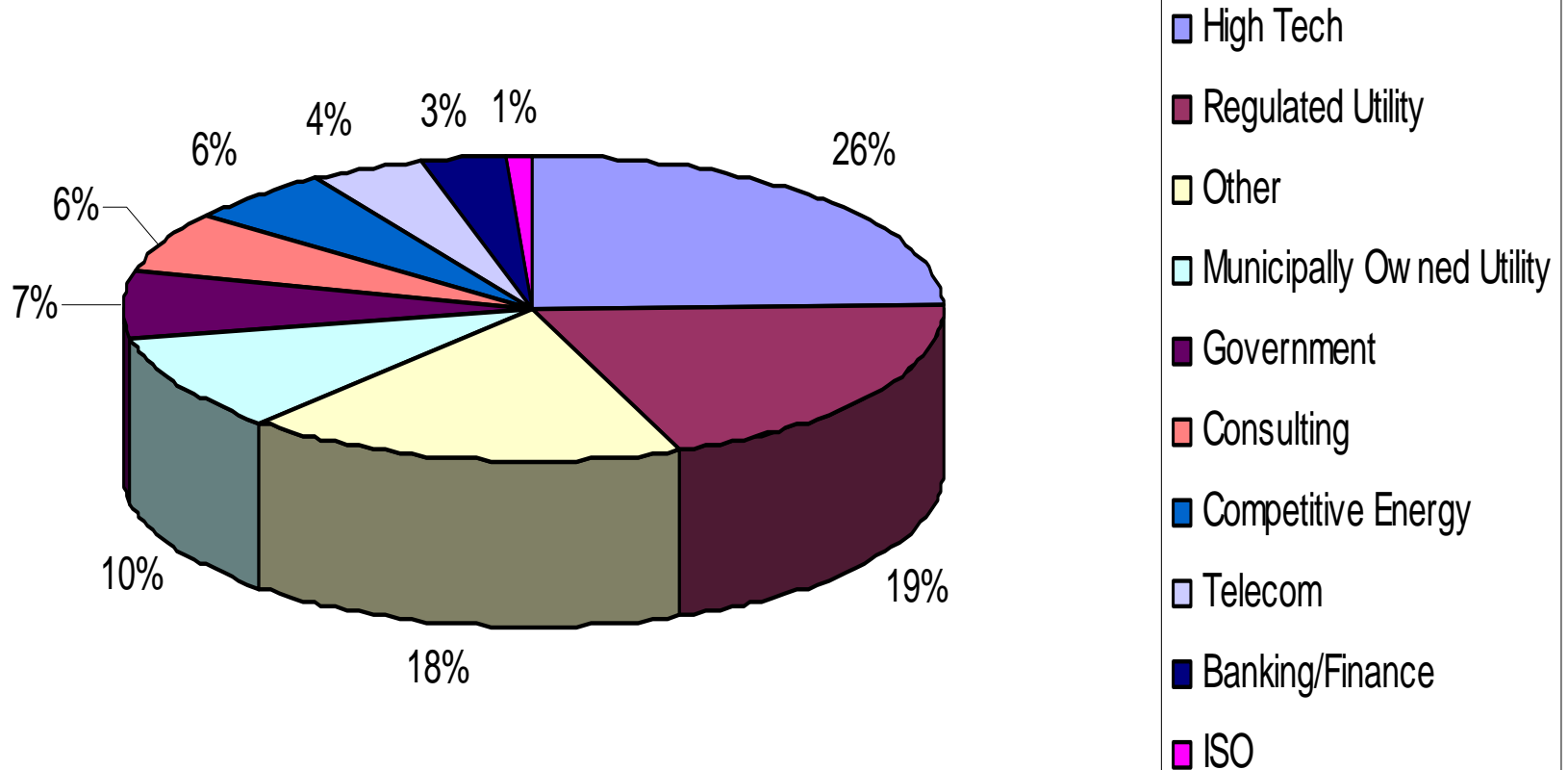
*104 Open
Positions*

*Avg. 38-71
Days to
Fill*

*Taylor
Location*

*13 Offer
Declines in
Last 30
Days*

ERCOT Employees Come From:



Retention Challenges

Employee Retention

*2006 T/O
10.4%
Annualized*

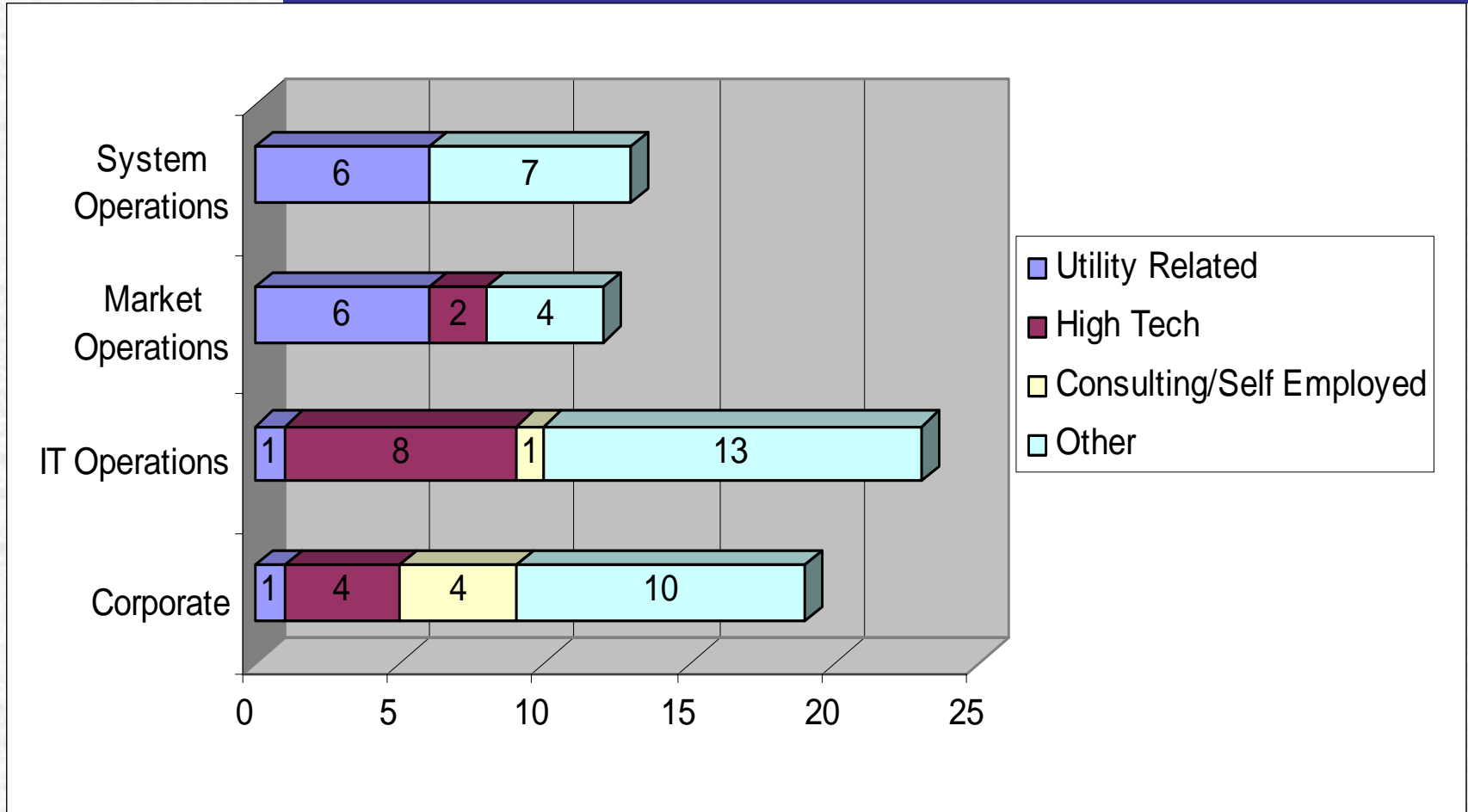
*Future
Nodal
Demand*

*ERCOT
skills in
demand*

*Austin
Market
Is Hot*

*Other
ISO / QSE's
Recruiting*

ERCOT Exiting Employees Go:



High Dependency on Unique Skill Sets

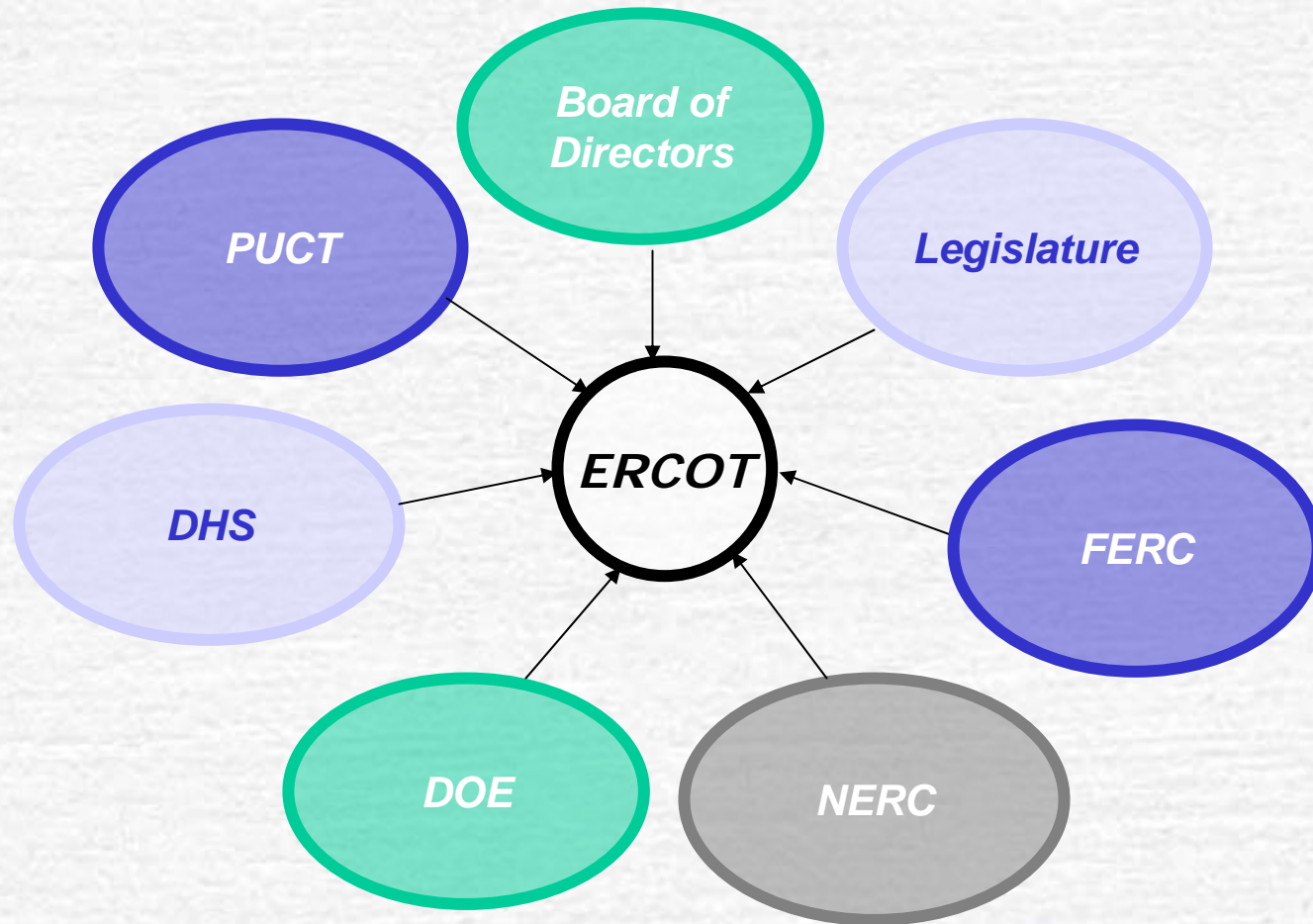
- Market for high-level IT skills is in great demand
- U.S. Universities not producing significant numbers of power engineers
- 40 HB-1/TN Visas sponsored
- ISO's are only entities that perform both System and Market Operations
- ERCOT only ISO that performs Retail Customer Switching



ERCOT-Specific Training Needed

- Most **System Operators** come from the Texas ERCOT regional markets. There are 3 main skill sets that ERCOT System Operators need to know as follows:
 - Transmission
 - Generation
 - Market background
- Most new hires come with strength in only one of these three skill sets and require significant additional training.
- NERC certification is required upon hire. In order to maintain certified status, the employee has to complete 200 hours of classroom time over a period of 3 years.

Multiple Layers of Governance & Oversight





Revised Compensation Strategy



Why ERCOT is Revising Compensation Strategy

- To align with the appropriate talent market
- To meet request of Board of Directors
- To align with stakeholder expectations
- To respond to PUCT and legislative concerns
- To provide stability for existing employees to adequately staff long term operations

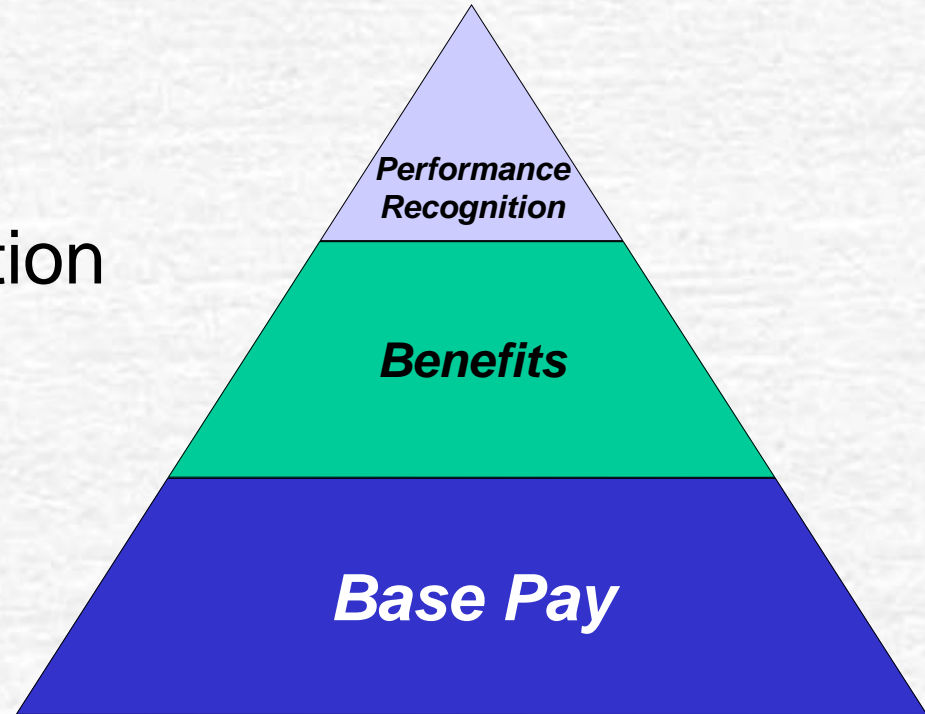


Compensation Strategy Objectives

- To attract, retain, reward and motivate required talent
- To align behaviors/performance with organizational objectives through rewards and recognition
- To promote both individual performance and teamwork

Compensation Strategy Components

- Programs that facilitate the attraction and retention of employee talent include:



- Variable Compensation is eliminated under this proposal



Employee Salary Administration

- Pay levels for individual employees vary based on skill, proficiency and individual performance.
- An individual's base salary is managed within pay range, but may be set above or below the range midpoint, depending upon expertise and performance.
- “Pay for performance” system provides salary growth through annual merit increases to employees demonstrating higher levels of performance.
- Individual performance and contribution is recognized through periodic discretionary performance recognition awards



Competitive Compensation Position

Midpoint of Salary Range

=

50th Percentile of Total Cash Compensation

as opposed to

50th Percentile of Base Salary



Project Plan



Further Analysis

ERCOT has selected Mercer Human Resource Consulting to assist ERCOT with the *2006 Compensation Structure, Review, Update and Administration Plan Project*



2006 Project Deliverables

- Job Analysis
- Develop Base Pay Salary Structure
- Slot All Jobs
- Determine Organizational Impact
- Analyze Equity Issues
- Develop and Deliver Internal Communication Plan
- Plan Implementation

Workplan Timeline

*Develop
Preliminary
Base Pay
Structure*

July 2006

*Slot
Jobs*

August 2006

*Develop Final
Base Pay
Structure*

Sept. 2006

*Submit 2007
Budget to
PUCT*

Oct. 2006

*Develop &
Deliver
Communication
Strategies*

Nov. 2006

*Implement
Plan*

Dec. 2006

*2006 Annual
Performance
Review & Merit
Cycle*

Jan. 2007

*Effective Date
For Merit
Increases*

Apr. 2007



Recommendations



ERCOT Recommends

- PUC approval of ERCOT Compensation Strategy
 - Eliminate variable compensation program
 - Establish midpoint of salary range at market median of total cash compensation
 - Institute performance recognition reward program for all eligible employees (up to 2% of total compensation budget)
- PUC release average merit increase of 3.6% retroactively to April 2006

Recommendations Rationale

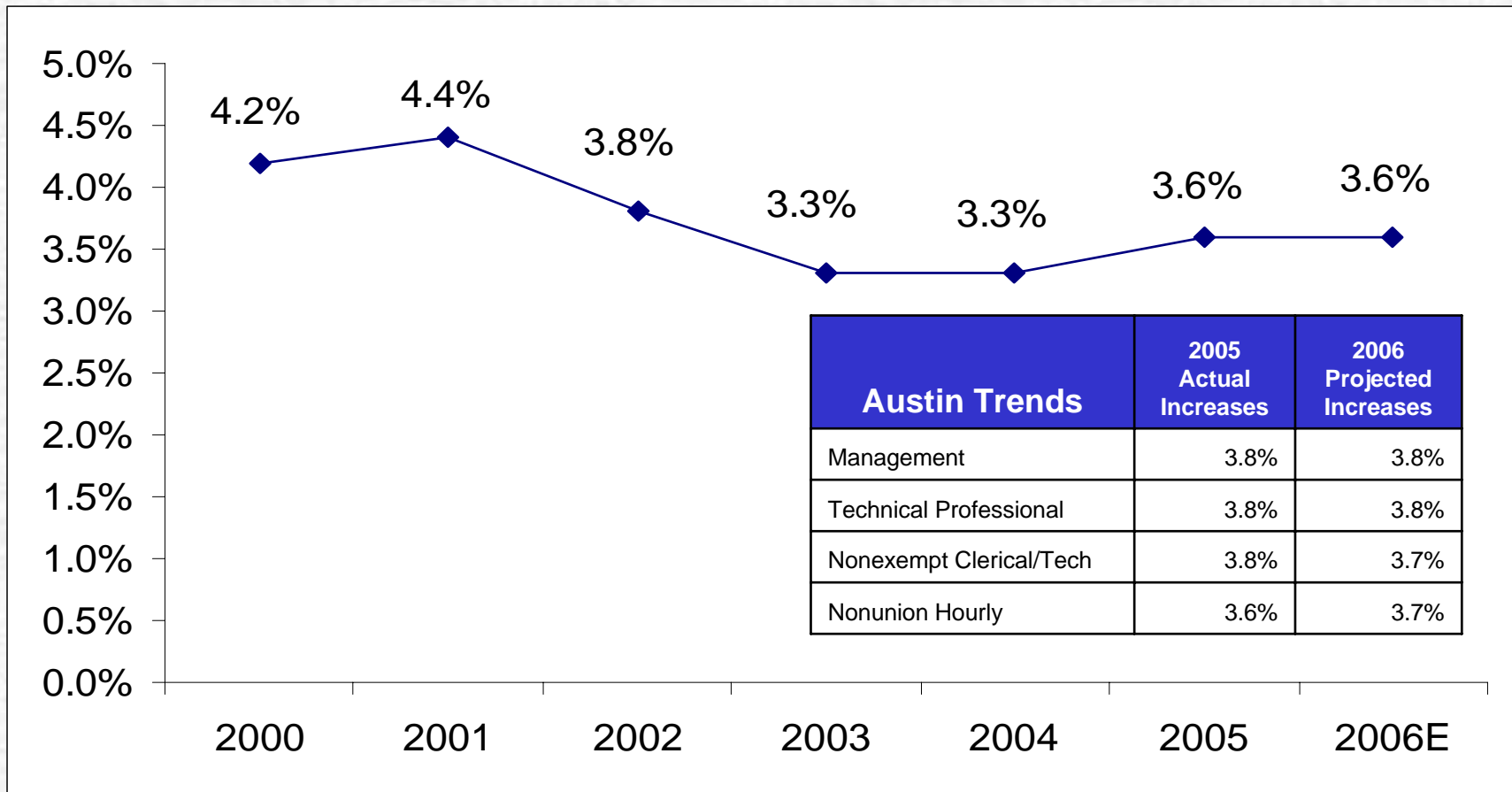
- Fair base pay commensurate with skills and responsibilities
- ERCOT's mission is not consistent with a pay structure dependent on performance bonuses
 - Variances in performance measures are too small to use as a significant mechanism for variable compensation
 - Team effort & interdependency are critical for ERCOT's success
 - ERCOT employee compensation should not be dependent on bonuses
 - Exceptional performances by individuals or small groups can be recognized in other ways
- Annual merit review process clearly defined and consistent



Merit Increase Justification

- Improve employee morale
- Improve retention
- Reduced benefits costs
- Shifted more benefits cost sharing to employees
- 6 months aging of data
- Elimination of variable compensation
- Standard strategy for most organizations

Base Pay Increase Trends



Source: 2005/2006 U.S. Compensation Planning Survey Mercer Human Resource Consulting

Risk of Inadequate Compensation

- Grid reliability
- Congestion management efficiency--increased cost to the consumer
- Nodal project impact
- Difficulty in implementing necessary financial and audit goals
- Additional loss of institutional knowledge due to higher turnover
- Increased training requirements



QUESTIONS?