

## **ERCOT** **Compensation Strategy**

- ◆ ERCOT's compensation strategy is constructed for these purposes:
  - To attract, retain, reward and motivate qualified employees
  - To align employee behaviors/performance with organizational objectives
  - To promote both individual performance and teamwork
  
- ◆ ERCOT recognizes the importance of maintaining a highly qualified, stable workforce in its successful attainment of organizational objectives associated with reliability of the electrical grid and operation of the wholesale and retail electricity markets of Texas. ERCOT recognizes the value of retaining institutional knowledge and minimizing unwanted turnover in the employee population.
  
- ◆ To facilitate the attraction and retention of the talent necessary to fulfill ERCOT's mission, its compensation program includes:
  - Base salary
  - Benefits (including health/welfare benefits and retirement benefits)
  
- ◆ The value of ERCOT's total cash compensation is centered at the 50<sup>th</sup> percentile (or median) of the organization's competitive labor markets, which is defined as appropriate for each segment of ERCOT's employee population based on where the organization generally attracts qualified candidates from and:
  - For job families in which the qualified talent pool is drawn primarily from private and public entities in Texas and surrounding areas, the competitive market is defined as ERCOT's geographic area. This includes most roles in Finance, Accounting, Treasury, Legal, Human Resources, Internal Audit, Information Systems support (e.g., technical support, network administration), and Administrative roles.
  - For job families and roles requiring specialized or advanced skill sets, with a smaller available talent pool, the competitive market will be employers of talent with comparable skill sets nationwide. Examples of these roles include those with expertise in commercial and retail energy markets, System Operations, Transmission Planning, specialized Information Technology and Security roles (e.g., infrastructure, applications development, data warehousing), and roles requiring NERC/FERC expertise. Management roles, particularly those at the director level and above, are also included.
  
- ◆ ERCOT's total cash compensation programs must be market competitive, and its established base pay ranges are maintained to ensure an aggregate pay position that is aligned with the 50<sup>th</sup> percentile of total cash compensation practices of the competitive market, as defined above. Pay levels for individual employees vary, as appropriate, relative to their skill, proficiency and individual performance levels. An individual's base salary is managed within ERCOT's market-based pay range for their position, but may reside above or below the range midpoint, depending upon the employee's expertise and performance.
  
- ◆ ERCOT's base salaries follow a "pay for performance" methodology, providing salary growth through annual merit increases to employees demonstrating higher levels of performance, as reflected in the organization's annual performance review process. In addition, individual performance may be recognized through discretionary spot performance

recognition rewards as authorized by the Executive Committee and within, budget parameters.

- ♦ ERCOT's pay structure will be reviewed annually based on general market pay increase and structure adjustments trends and the results of compensation market research conducted for benchmark jobs, as appropriate given current market conditions, in order to ensure the organization's pay ranges remain competitive.
- ♦ Every three years, or as determined by ERCOT's executive management team, the ERCOT HR/Governance Committee, or ERCOT's Board of Directors, ERCOT will conduct a comprehensive assessment of ERCOT's compensation strategy and pay practices to determine the competitive posture of the organization and enable ERCOT to devise plan(s), as needed, to bring identified positions or job families into competitive alignment.
- ♦ ERCOT's programs meet all legal requirements in the administration of the program; e.g., salary programs are non-discriminatory, fair, and applied consistently, with no special considerations relating to gender, race, age, and/or disability.
- ♦ The establishment of a compensation program does not confer any right to future employment. ERCOT has the right to amend, modify, or discontinue provisions of the compensation programs at any time without prior notification.