

ERCOT H.R. & Governance Committee Meeting Minutes  
Tuesday, February 21, 2006  
8:00 a.m.

**Committee Members Present**

Bob Kahn	Carolyn Gallagher	Mark Armentrout
Brad Cox	Andrew Dalton	

**Guests and Staff Present**

Tom Schrader	Carolyn Shellman	Nancy McIntire
Shari Heino	Richard Gruber	

Bob Kahn called the meeting to order at 8:05 a.m. after determining that a quorum was present.

**1. Minutes**

**Carolyn Gallagher moved to approve the January 17, 2006 meeting minutes. Mark Armentrout seconded the motion. The Committee approved the minutes unanimously.**

**2. Update on Market Participant Survey**

Mr. Kahn invited Richard Gruber, Director of Market Services, to present the history of ERCOT's Market Participant Survey and ERCOT's plans to conduct the survey again in 2006. Mr. Gruber presented available options for the 2006 survey and stated that ERCOT staff recommended keeping modification of the survey to a minimum due to the benchmark value associated with repeating prior survey questions. Mr. Gruber noted that ERCOT should have results from the 2006 survey in time for the May Board meeting. Mr. Armentrout recommended ensuring sufficient time surrounding the survey deadlines so that ERCOT staff have the opportunity to review the survey results before presentation to the Board.

**3. Election of Vice Chair**

**Mr. Kahn moved to appoint Ms. Gallagher as Vice Chair of the Committee for 2006. Mr. Cox seconded the motion. The Committee approved the motion unanimously.**

**4. Compensation for ERCOT Board Chair**

Mr. Armentrout, ERCOT Board Chair, recused himself for this item and left the room. Ms. McIntire noted that a ten to twelve percent (\$4000-\$5000) retainer (in addition to usual compensation) for the Board chair is consistent with industry practice, including the practice of other ISOs. **Ms. Gallagher recommended \$4500. The Committee unanimously voted to recommend this amount to the Board.** Mr. Kahn noted that he would remind the Board that this additional payment would effectively raise the existing annual cap on reimbursement for the Board chair.

## 5. Approval of Dashboard Goals

Mr. Schrader provided a summary of ERCOT's proposed 2006 Dashboard Goals, noting changes from last year's goals. The Committee had a lengthy discussion about setting goals and performance factors. The Committee noted the need to ensure that the stretch goals are truly stretch goals, *i.e.*, not goals that are easily met given current performance and that target (minimum) goals are not too far below the prior year's performance. The Committee also discussed whether a three year average of prior years' performance would be a better comparison for setting future goals.

**Mr. Armentrout moved to endorse the structure and approach of the 2006 Dashboard Goals (not the actual numbers) but require ERCOT staff to bring back any items where the target is not the average of last three years' actual performance with an explanation of the difference.** Mr. Dalton stated that he would like an analysis and explanation for *all* goals provided to the Committee. **Mr. Dalton, therefore, proposed amending the motion to require a statement of the rationale for each goal, which includes a comparison to the prior three year average. Mr. Armentrout accepted this amendment. Ms. Gallagher seconded the amended motion.** Ms. Gallagher noted that due to changes expected in ERCOT's future, ERCOT needs to develop a vision statement to support goal-setting practices for the future. The Committee discussed the need for a long-term vision statement. **The Committee then unanimously approved the motion.** Mr. Kahn noted that the Board will not need to vote on this item. **Mr. Armentrout moved to recommend that ERCOT staff work with the Committee on a vision statement. Mr. Kahn seconded the motion. The Committee unanimously approved the motion.**

## 6. Compensation Philosophy

Ms. McIntire provided an updated version of ERCOT's proposed Compensation Philosophy. Ms. McIntire noted that a significant goal of the compensation philosophy was for ERCOT's average compensation to be centered around the 50<sup>th</sup> percentile with respect to other comparable employers. This concept is consistent with the conclusions of the Mercer study. Committee members discussed potential changes to the document. Mr. Armentrout suggested changing the name of the document to "Compensation Strategy." Mr. Kahn discussed the need to track ERCOT's response to the Mercer study recommendations and recommended quarterly reports to the Board. Ms. McIntire reported that ERCOT has issued an RFP to implement Mercer study recommendations.<sup>1</sup> Ms. Gallagher volunteered to head a subcommittee to oversee ERCOT's progress on implementing the Mercer Study recommendations. Mr. Dalton also volunteered to join the subcommittee.

## 7. Employee Benefits

Ms. McIntire provided a recap of the Mercer study findings with respect to employee benefits and handed out copies of several charts from Mercer's presentation.

## 8. Adjourn to Executive Session

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<sup>1</sup> Available on ERCOT's website at [http://www.ercot.com/about/procurement/rfp/RFP\\_Comp\\_Structure\\_and\\_Job\\_Slotting\\_Analysis\\_doc](http://www.ercot.com/about/procurement/rfp/RFP_Comp_Structure_and_Job_Slotting_Analysis_doc).

The Committee adjourned to Executive Session at 9:40 a.m. to receive a report regarding Nominating Committee activities and discuss ERCOT's 2005 Variable Compensation Plan.

**9. Reconvene in Public Session – Report on Executive Session**

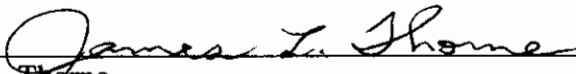
Mr. Kahn reconvened the Committee in open session. **Ms. Gallagher moved to approve 2005 bonuses for eligible employees based upon the 2005 Incentive Compensation Plan. Mr. Armentrout seconded the motion. The Committee unanimously approved the motion.**

At 10:05 a.m., the Committee adjourned.

**CORPORATE SECRETARY'S CERTIFICATE**

I, James L. Thorne, General Counsel and Corporate Secretary of ERCOT, do hereby certify that, at the March 21, 2006 ERCOT H.R. and Governance Committee Meeting, the Board of Directors of ERCOT approved the above minutes.

IN WITNESS WHEREOF, I have hereunto set my hand this 20<sup>th</sup> day of March, 2007.

  
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James L. Thorne  
Vice President, General Counsel and Corporate Secretary