

Section 4.3 Selection, Tenure, and Requirements of Directors and Segment Alternates.

(a) Selection of Market Participant Directors and Segment Alternates:

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(b) Selection of Unaffiliated Directors:

- (1) The Nominating Committee shall consist of all of the voting Directors, other than the CEO.
- (2) The Nominating Committee shall retain an executive search firm to locate and present candidates with the required qualifications. Qualifications for Unaffiliated Directors shall be as follows:
  - (i) Experience in one or more of these fields: senior corporate leadership; professional disciplines of finance, accounting, engineering or law; regulation of utilities; risk management; and information technology.
  - (ii) Independence of any Market Participant in the ERCOT Region. Requirements of such independence include, but are not limited to, the following:
    - a. Unaffiliated Directors or family members (any spouse, parent, spouse of a parent, child or sibling, including step and adoptive relatives) shall not have current or recent ties (within the last two years) as a director, officer or employee of a Market Participant or its Affiliates.
    - b. Unaffiliated Directors or family members (any spouse, parent, spouse of a parent, child or sibling, including step and adoptive relatives) shall not have direct business relationships, other than retail customer relationships, with a Market Participant or its Affiliates.
    - c. To the extent that an Unaffiliated Director or family member (any spouse, parent, spouse of a parent, child or sibling, including step and adoptive relatives) living in the same household owns stocks or bonds of Market Participants, these must be divested or placed in a blind trust prior to being seated on the Board.
  - (iii) Residence in the State of Texas preferred.
  - (iv) Other criteria as approved by the Board.

- (3) The Nominating Committee shall interview the qualified candidates and select, by at least a two-thirds majority, an Unaffiliated Director(s) (as such seat is vacant) to present to ERCOT Membership for its approval.
  - (4) The Membership shall vote by Segment as described in Section 12.1(d) in favor or against the proposed Unaffiliated Director(s) during the same time period as election of the Market Participant Directors. A proposed Unaffiliated Director(s) that is approved by at least four out of seven Segments shall become an Unaffiliated Director(s). Upon approval of the Membership, the proposed Unaffiliated Director(s) shall be filed with the PUCT for approval.
  - (5) Pending PUCT approval, the Membership-approved Unaffiliated Director(s) shall be seated at the Annual Meeting. Should the PUCT not approve the Unaffiliated Director(s), the seated Director(s) shall remain seated until a new Unaffiliated Director(s) is elected and approved in accordance with the process set forth above.
- (c) Terms. The term for all Market Participant Directors shall be for one year. Any Market Participant Director may be reappointed or reelected for consecutive terms. The term for all Unaffiliated Directors shall be staggered three year terms unless changed by Amendment to these Bylaws. An Unaffiliated Director may be reelected for up to two consecutive terms. Notwithstanding the forgoing, in 2005, three of the five Unaffiliated Directors will be seated, serving subject to the final approval of the PUCT. Of these three, one position shall be for a term of two years and two positions shall be for three year terms.
- (d) Director Voting Weights. All voting Directors shall have a single vote each.
- (e) Alternates and Proxies. Directors serving in Segments with a Segment Alternate may not designate other alternate representatives and may not designate another Director as a proxy unless their Segment Alternate is unavailable. Unaffiliated Directors may designate another Director as a proxy if unable to attend a Board meeting. Consumer and *ex officio* Directors may designate a proxy or an alternate representative who may attend meetings and vote (if applicable) in the absence of such Director.