

Date: July 7, 2008
To: Texas RE Board of Directors
From: Larry Grimm, Texas RE CEO/CCO
Subject: Approval of New Committee Charter

Texas Regional Entity Board of Directors Meeting Date: July 15, 2008

Agenda Item No.: 5a

Issue:

Approval of name and Charter for new Texas Regional Entity Committee.

Background/History:

In accordance with the June 2008 Board Resolution, Texas Regional Entity (Texas RE) formed a new committee ("Committee") to review, discuss, and make recommendations to the Board regarding Texas RE budget, audit, finance, human resources, and other administrative matters.

Texas RE staff requests and anticipates that the Committee will request the Board approve a name and committee Charter for the new Committee, as recommended by the Committee. Texas RE staff has attached a proposed Committee Charter, attached hereto as Exhibit A, for the review, discussion, possible modification, and recommendation by the Board.

Key Factors Influencing Issue:

- The Committee needs a name and an approved Charter that describes its responsibilities.
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Alternatives:

- Approve a name and the recommended Committee Charter.
 - Approve a name and a modified Committee Charter.
 - Postpone the approval of a Committee Charter, pending further discussion.
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Conclusion/Recommendation:

Texas RE staff respectfully requests that the Board approve a name and Charter for the new Committee, as recommended by the Committee.

RESOLUTION OF THE BOARD OF DIRECTORS OF
TEXAS REGIONAL ENTITY, A DIVISION OF
ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.

, 2008

WHEREAS, the Board of Directors ("Board") of Texas Regional Entity, a division of the Electric Reliability Council of Texas, Inc., a Texas non-profit corporation, deems it desirable and in the best interest of Texas Regional Entity to approve a name and charter for the new committee approved by the Texas Regional Entity Board of Directors on June 17, 2008 to review, discuss, and make recommendations to the Board regarding Texas RE budget, audit, finance, human resources, and other administrative matters ("Committee");

THEREFORE be it RESOLVED, that the Board hereby approves the name of _____ Committee for the new Committee; and

Be it FURTHER RESOLVED, that the Board hereby approves and adopts the Committee Charter which is attached hereto as Exhibit A and incorporated herein, as the Committee's Charter.

CORPORATE SECRETARY'S CERTIFICATE

I, Susan Vincent, Corporate Secretary of Texas Regional Entity, do hereby certify that, at the _____, 2008 Texas Regional Entity Board of Directors Meeting, the Board of Directors of Texas Regional Entity approved the above referenced resolution. The motion passed by _____.

IN WITNESS WHEREOF, I have hereunto set my hand this _____ day of _____, 2008.

Susan Vincent
Corporate Secretary

Exhibit A

Draft - Texas Regional Entity Human Resources, Governance and Finance & Audit Committee Charter

Purpose

The _____ Committee (the “Committee”) of the Board of Directors of Texas Regional Entity (“Texas RE”) shall provide assistance to the Board in fulfilling its oversight responsibility relating to Texas RE’s employment, compensation, financial, financial audit, and other administrative matters. In so doing, the Committee will maintain free and open communication between the Committee and Texas RE’s staff and independent auditors, as well as the employees of Electric Reliability Council of Texas, Inc. (ERCOT) that provide services to Texas RE.

Membership

The Committee shall be comprised of the Unaffiliated Directors, the Public Counsel (from the Texas Office of Public Utility Counsel), and the Chair of the Public Utility Commission of Texas or his or her designee (as a non-voting member). The Chair of the Committee shall be selected through a majority vote of the Committee members. The Committee may also elect a Vice Chair through a majority vote of the Committee members.

The Committee may request that any officers or employees of Texas RE and any officers or employees of ERCOT who provide administrative or other services to Texas RE, or any other person, whose advice and counsel are sought by the Committee, attend any meeting of the Committee to provide such pertinent information as the Committee requests.

Board members (other than Committee members) including Segment Alternates may attend and participate in all Committee meetings but may not participate in Committee voting. Other non-Committee members may also attend Committee meetings at the discretion of the Committee. The Committee may exclude any persons who are not Directors, the Segment Alternate or the Director’s Designated Representative from any meeting or portion of any Committee meeting that the Committee determines, in its discretion, needs to be held in closed session to discuss personnel issues, confidential legal matters, negotiations or other business of the Committee involving confidential information.

Authority

The Committee is responsible for making recommendations to the Board of Directors regarding Texas RE’s employment, compensation, financial, financial audit, and other administrative matters. In discharging its oversight role, the Committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities and personnel of Texas RE and the power to retain outside counsel or other experts for this purpose. All employees are directed to cooperate as requested by the Committee or any of its Members for Committee purposes. The Committee may request any officer or employee of Texas RE, ERCOT, Texas RE’s outside counsel, or Texas RE’s independent auditor attend a meeting of the Committee or to meet with any Member or any consultants to the Committee.

Structure

The presence of at least four (4) members of the Committee shall constitute a quorum. At any meeting at which a quorum exists, the act of a majority of the members present at a meeting shall be the act of the Committee. For the purposes of voting, members who recuse themselves from voting on an issue shall not be counted as present for that vote.

The Chair, in consultation with the Texas RE Chief Executive Officer and Chief Compliance Officer (CEO) and Corporate Secretary, shall develop the agenda, the frequency, and length of

meetings and shall have unlimited access to management and information for purposes of carrying out functions of the Committee. The Chair shall establish such other rules, as may from time to time be necessary and proper for the conduct of the Committee.

Duties and Responsibilities

The following shall be the prominent recurring duties and responsibilities of the Committee in carrying out its oversight functions. The duties and responsibilities are set forth below as a guide to the Committee with the understanding that the Committee may alter or supplement them as appropriate under the circumstances to the extent permitted by applicable law, and by Texas RE's Articles of Incorporation and Bylaws:

With respect to human resources (employment, compensation, etc.):

1. Develop Texas RE's general compensation and benefits philosophy, strategy, policies and programs, and compensation levels of the executives and top management (provided that if ERCOT is providing human resources administrative services for Texas RE, the Committee may choose to adopt the same compensation and benefits philosophy, compensation levels, and employee benefit plans as approved and used by ERCOT).
2. Review and approval of pay levels for Chief Executive Officer (CEO) and any contractual employment arrangements for the CEO of Texas RE.
3. Annually, review and approval of performance goals and objectives with respect to the compensation of the CEO, consistent with approved compensation plans.
4. Evaluate the CEO's performance against the goals and objectives set for the year.
5. For the CEO, based upon the performance evaluations, set the compensation, including annual base salary level and any special or supplemental benefits, and set annual incentive level and longer-term incentive level.
6. Investigate competitive salary and benefit practices and trends to determine the adequacy of the organization's executive and overall compensation programs; retain or terminate the services of consulting firms engaged to assist the Committee in the evaluation of Texas RE's compensation packages.

With respect to budget approval and financial oversight:

1. Oversee Texas RE's budget process, adherence to budget and make recommendations to Texas RE's Board of Directors regarding all financial matters to be approved by the Board.
2. Annually, on a schedule to be established by the Board of Directors in compliance with the Delegation Agreement, the Committee shall review Texas RE staff's proposed budget for the following year, including proposed staffing levels, proposed capital expenditures, and other proposed expenditures.
3. Following the Committee's review of the above items, recommend to the Board of Directors a proposed annual budget for statutory and non-statutory activities.

With respect to Texas RE's financial statements and independent auditors:

1. Discuss the annual audited financial statements with management and the independent auditor, including Texas RE's disclosures.
2. In connection with its review of Texas RE's financial statements, review and discuss with the independent auditor the matters relating to the conduct of the audit as they may be

modified or supplemented, including, but not limited to, significant judgments, significant estimates, critical accounting policies, and unadjusted differences.

3. Review major changes to Texas RE's auditing and accounting principles and practices as suggested by the independent auditor, or management.
4. Review with management and the independent auditor any correspondence with regulators or governmental agencies and any employee, market participant, registered entity, or other complaints or published reports that raise material issues regarding Texas RE's financial statements or accounting policies.
5. Review with management and the independent auditor the effect of regulatory and accounting initiatives related to Texas RE's financial statements.
6. Based on its review and discussions with management and the independent auditor, the Committee shall provide a recommendation to the Board of Directors whether Texas RE's financial statements should be accepted.
7. If Texas RE is required to have its financial statements audited separately from the ERCOT financial statements, the Committee shall fulfill the oversight responsibility of the Board of Directors with respect to the independent auditors' audit of the Texas RE books and accounts. In this event, the Committee shall review any report by the independent auditor in detail and communicate its findings to the Board.

Meetings

The Committee shall meet as many times as the Committee shall deem necessary or appropriate.

Minutes

The Texas RE Corporate Secretary or an authorized assistant corporate secretary shall prepare or cause to be prepared the minutes of each meeting and file such minutes with the corporate records of Texas RE. The Corporate Secretary shall send, or cause to be sent, copies of such minutes to each of the Committee members.