

## **PROPOSED COMPENSATION STRUCTURE FOR ERCOT BOARD UNAFFILIATED DIRECTORS**

*To Become Effective As Of September 1, 2008*

### **Current Annual Retainer for ERCOT and TRE Independent Board Members**

**NO CHANGE** to the current annual retainer of \$40,000

- Consistent with Towers Perrin Study recommendations
- Towers Perrin Study indicates that ERCOT is above the median for this component; however, ERCOT Board members are assuming TRE responsibilities that are not typical for other ISOs. Annual Retainer includes service on both the ERCOT Board and Committees and the TRE Board and Committees

### ***Board Chair Compensation***

**NO CHANGE** to the current Board Chair compensation, which is 25% of the Annual Retainer (i.e., \$10,000)

- Board Chair is the Chair of both the ERCOT and the TRE Boards
- Towers Perrin Study recommends \$20,000 to \$30,000

### ***Committee Chair Compensation***

**NO CHANGE** – ERCOT does not provide Committee Chair Compensation

- Towers Perrin Study recommends \$3,000 to \$5,000
- The subcommittee declined to make this structural change at this time; however, adding a compensation component for Committee Chairs should be considered in the future as part of the periodic review of Unaffiliated Board member compensation

### ***Caps on Total Independent Board Member Compensation***

**NO CHANGE** to the current compensation policy that *does not* cap total annual compensation, but ties annual compensation to meetings attended which the Board determined better aligns Board member compensation with time contributed to Board activities

- Prior to January 1, 2008, ERCOT did cap total annual compensation at \$74,800

## **CURRENT ERCOT BOARD AND COMMITTEE MEETING FEES**

### ***ERCOT Board Meeting Fees***

**NO CHANGE** to the current Board meeting fee of \$2,000 per day of Board meetings attended in person

- Towers Perrin Study indicates that ERCOT is above the median for this component; however, ERCOT is below the median for Committee Meeting fees
- As a point of clarification, the Monday afternoon Q&A sessions do not qualify as board meetings; however, the Annual Retreat does

**NO CHANGE** to the current Special Board meeting fee of \$200 for each *Special* Board meeting attended telephonically

- ERCOT Board historically has held 2-3 Special Board meetings each year and each of these Special Board meetings typically is of a duration less than one hour

### ***ERCOT Committee Meeting Fees***

**NO CHANGE** to the current \$900 per day committee meeting fee

- Towers Perrin Study recommends an increase to \$1,000 for the Committee meeting fee
- Effective January 1, 2008, the Board changed the prior policy that restricted Board members from receiving more than one \$900 meeting fee per month, which allows Board members to be compensated for attending more than one Committee meeting in a given month, if necessary
  - The Board determined eliminating this cap on monthly compensation for attending committee meetings better aligned Board member compensation with time contributed to Board Committee activities
  - This change also recognized the differences between F&A and HR&G with respect to the number of Committee meetings held each year

## **PROPOSED TRE BOARD & COMMITTEE MEETING FEES**

The ERCOT Board recently created a TRE Committee that is comprised of the Chairman of the PUCT, the Residential Consumer Segment representative and all of the Independent Board Members. On July 15, 2008, the Board also decided to hold TRE Board meetings quarterly and TRE Committee meetings each month, on the Monday before the normally scheduled ERCOT Board meeting.

### ***TRE Board Meeting Fees***

**CHANGE – ADD** a new fee of \$900 per TRE Board Meeting.

- Currently there is not a separate meeting fee for the TRE Board, since TRE and ERCOT Board meetings have historically been on the same day.
- Consistent with Towers Perrin Study recommendations
- As a point of clarification, the Monday afternoon Q&A sessions do not qualify as Board or Committee meetings; however, the Monday Q&A will continue to be held after the TRE Board and/or Committee meetings
- The annual retreat would not count as a TRE Board or Committee meeting

**CHANGE - ADD** a \$200 fee for each *Special* TRE Board meeting attended telephonically. TRE has not yet held these types of Special Board meetings, but the option may help obviate holding TRE Board meetings more than quarterly.

### ***TRE Committee Meeting Fees***

**CHANGE - ADD** a new \$400 per day TRE Committee meeting fee

- Towers Perrin Study recommends an increase to \$1,000 for the Committee meeting fee

## **ANALYSIS AND OBSERVATIONS REGARDING THE PROPOSED TRE COMPENSATION STRUCTURE**

- Prior to January 1, 2008, Unaffiliated Directors receive \$74,800 if they attend 12 Board meetings and at least one Committee meeting each month
  - ERCOT typically provides its employees a 3% cost of living adjustment
  - Applying the 3% COLA to the \$74,800 figure for 4 years results in a figure of \$84,200
  - The Towers Perrin Study reports that the median for ISO director compensation for calendar year 2007 is \$77,000
  - Applying the 3% COLA to the \$77,000 figure (to adjust Towers Perrin's calendar year 2007 Study results to calendar year 2008) yields a median of \$79,300
- After January 1, 2008, based on the approved changes to the compensation structure and based historical information regarding the number of ERCOT Board and Committee meetings
  - An unaffiliated director on the **F&A Committee** attending all meetings and being compensated using current Compensation Structure would likely receive **Total Annual Compensation of \$81,000**
    - \$40,000 as an annual retainer
    - \$26,000 for attending 13 Board meetings including the retreat
    - \$14,400 for attending 16 F&A Committee meetings
    - \$600 for attending 3 telephonic meetings of the Board
  - An unaffiliated director on the **HR&G committee** attending all meetings and being compensated using the Proposed Compensation Structure would likely receive **Total Annual Compensation of \$78,300.**
    - \$40,000 as an annual retainer
    - \$26,000 for attending 13 Board meetings including the retreat
    - \$11,700 for attending 13 HR&G Committee meetings
    - \$600 for attending 3 telephonic meetings of the Board

- ERCOT historically has fulfilled both ISO and regional reliability duties whereas other ISOs do not. However, the regional reliability duties have significantly increased with the assumption of Regional Entity responsibilities. The Board has created a TRE Committee and decided to hold TRE Board meetings quarterly and TRE Committee meetings each month on the Monday before the normally scheduled ERCOT Board meeting.
  - Based on the Board approved TRE meeting structure, if the proposed TRE Board and Committee meeting fees was adopted, each Independent Board Member's *annual compensation would increase* by approximately **\$8,800**
    - \$3,600 for attending 4 TRE Board meetings
    - \$4,800 for attending 12 TRE Committee meetings
    - \$400 for attending 4 telephonic meetings of the Board
  - This would increase the expected annual compensation for an Independent Board Member on the **F&A Committee** and the **TRE Committee** from **\$81,000 to \$89,800**, assuming all meetings were attended.
  - This would increase the expected annual compensation for an Independent Board Member on the **HR&G Committee** and the **TRE Committee** from **\$78,300 to \$87,100**, assuming all meetings were attended.
  - The Proposed TRE Board and Committee fees would put ERCOT at roughly **10% above the median**, 2008 COLA adjusted ISO director annual compensation, as identified by Towers Perrin

In light of the scope of the duties of the TRE, the fact that the TRE's costs to consumers are comparatively lower than other fully separated Regional Entities and the Board's desire to create greater separation between the ERCOT Board functions and the TRE Board functions, setting total annual compensation at roughly 10% above the median annual compensation as identified by Towers Perrin is reasonable.