

ERCOT Recruiting Strategy

January 2009

The strategy and guiding principles for ERCOT recruiting is to address the current increased staffing demands due to business changes. The recruiting strategy is designed to ensure ERCOT attracts quality candidates who are prepared to perform successfully on the job. Recruiting is an on going process. It is not a phase, nor is it something done only when applicants are needed.

We hire outside employees at ERCOT for the following reasons:

- Replacements for turnover
- Current or future business expansion or change, such as moving our operating system to nodal
- Increasing the caliber of talent due to business need
- Bringing new skills from other firms

Recruiting Mission Statement – ERCOT's recruiting mission is to continually identify, attract and retain top talent. Our recruiting focus will parallel the business focus for ERCOT and will require a close alliance between human resources, contract recruiters and the hiring manager. This communication process will be critical to identifying quality candidates and to selecting excellent new employees on a timely basis.

HR Organizational structure – the Director Human Resources' primary responsibilities will be recruitment and employee relations. ERCOT currently has two employees who focus on recruiting and two contract recruiters. This structure has reduced our number of openings from a high of 106 open positions in June 2006 to 29 in November, 2008.

Recruiting Plan Guiding Principles

Accountability for Recruiting Strategy – Human resources, in conjunction with senior management, will establish the recruiting strategy for the Company. The recruiting goals will mirror the business goals and objectives of ERCOT.

Prioritization of jobs – No recruiting function has enough resources to fill every position immediately with a top quality hire. As a result, the ERCOT recruiting plan will include a prioritization factor. Human resources will prioritize the positions based on the strategic business needs of ERCOT. Positions critical to the deployment of Nodal and to protect the business operations will be designated as priority hires. Human resources will identify the critical positions on the recruitment Open Position Report, which will be shared with all officers and department directors.

Performance level to target – Employee's recruited for the majority of open positions will be candidates who meet the performance requirements of the position. However, ERCOT may seek a limited number of employees who are new to the demands of the position and occasionally may hire top performers for selected key positions.

Salary guidelines for new hires - If an individual meets all requirements for the position, he/she would normally be hired at the minimum of the salary grade or no more than the 50th percentile of the grade. Consideration will be given to current salary requirements (base on current actual total cash compensation) and years of experience. A limited number of new hires will be hired above 50% of the range. Individuals hired above the 50th percentile must exceed the base

requirements for the position and all such requests must be approved in advance by the Director of Compensation and Benefits. Employees who are offered salaries above the 75th percentile must receive approval from the Officer over the hiring area, the VP Chief Administrative Officer and the CEO. Internal candidates for positions in higher salary grades will normally provided an increase based on the hiring manager's recommendation, timing with merit adjustments and alignment with budget requirements; however, qualified internal candidates should always be brought up to the minimum of the salary grade, if they meet all position requirements.

Experience level to target – Due to rapid growth, ERCOT has historically hired employees with many years of experience in key positions such as IT and system operations. As we begin to stabilize our workforce, ERCOT will be recruiting a blend of experience levels ranging from recent college graduates to tenured professionals. In November of 2007 ERCOT launched an aggressive College Recruiting campaign targeting, The University of Texas, Texas A&M, and the University of Oklahoma Power Engineering Schools.

Category of candidate to target – Previously ERCOT has focused on unemployed and currently employed but looking candidates. HR is currently using strategies to attract both active and passive candidates.

Diversity of candidates – ERCOT is firmly committed to a policy of equal employment for all qualified persons without regard to race, color, sex, medical condition, religion, age, creed, national origin, citizenship status, marital status, sexual orientation, physical or mental disability, ancestry, veteran status, genetic information, or any other protected category under federal, state or local law such as opposing or participating in any complaint process at the Equal Employment Opportunity Commission or other human rights agency. This policy governs all terms and conditions of employment including recruitment, job assignment, promotions, transfers, and compensation, access to benefits, training and terminations.

The Company shall attempt to maintain equitable balance of qualified personnel throughout the workforce at all levels and in all job classifications. Such balance shall be job-related and shall not be administered so as to result in:

- Reduction in quality or efficiency of the Company's operations;
- Employment, promotion or transfer into a job of any person who is not able to perform the essential functions of such job at the time of employment or promotion. Reasonable accommodations will be made, if required;
- Discharge, layoff, demotion or transfer of anyone for the accomplishment of a balanced workforce;
- Selection of anybody other than a qualified and available person.

Search timeline for candidates – ERCOT begins a search once a requisition has been approved. ERCOT maintains a continuous search for selected key positions with a history of turnover and recruiting challenges. By conducting continuous searches ERCOT will seek to build a talent pool and industry relationships to increase employment applications, resumes and offer acceptance rates.

Where to search for candidates – ERCOT has historically focused on internal candidates for lateral movement or promotions. We will continue to consider internal candidates for all positions and recruit externally when a required skill set is not readily available internally. In 2008, 111 positions were filled by internal candidates due to transfers or internal promotions. To retain talent, ERCOT will also consider the transitioning of contract employees to regular employment. In 2008 we have converted 47 contract employees to full-time open positions. As we transition our nodal contractors, it will be imperative to review all critical contractors and determine if they should be converted to ERCOT employees to avoid a loss of critical knowledge. Transition

processes, including offers of employment to existing contractors and employees, will be managed through human resources in partnership with the hiring manager. ERCOT will target selected industries offering the greatest likelihood of qualified applicants for specialty skills. Positions which do not require specific industry experience will be recruited from general industries in the local area.

Geographic focus – Local candidates will be given preference for all positions assuming comparable education and experience.

Who is responsible for the recruiting – ERCOT will use both external contract recruiters and internal recruiters to fill the current openings. HR will reduce the dependence on external contracted recruiters over the next 12 months, as the needs for nodal subside. ERCOT will also be working with line managers and employees to increase the number of employee referrals. In 2008, 28 positions were filled using the employee referral program. In order to maintain a fair and consistent method of hiring as well as accessing abroad base of candidates, all candidates will be processed through human resources. If a candidate contacts the hiring manager directly, the hiring managers will refer candidates to human resources for initial screening and entrance into the recruitment process.

Successful and timely recruiting at ERCOT is dependent upon the partnership between human resources and the hiring manager. Recruiting results must be a priority for both partners when an open position request is created. A rapid and dependable response from both entities is essential to the partnership and recruiting results.

Recruiting agencies (search firms) – ERCOT has not utilized external recruiting agencies in the past few years. In 2008 Human resources submitted a RFP to add contingency recruiters for hard to fill select positions. Subsequently Spyglass Technologies was added and we are current working with a number of contract-to-hire contracting agencies. Since agency recruiting fees will be charged to the hiring department, both the hiring manager and human resources must approve for specific positions.

Importance of skills when selecting candidates – Candidates are selected based on their skills, competency and technical experience required for the position being, with consideration of the candidate's ability to grow into the next logical position.

How candidates are assessed – Candidates are assessed using multiple interviews, group interviews, references, educational verification, drug screening and on the job assessment for contract-to-hire positions.

Primary sourcing tools – ERCOT recruiters determined the best options for posted positions on either, Energy Central, www.careerbuilder.com, www.dice.com or www.monster.com as well as on the Company web page. We have also utilized job fairs and relationships with universities.

- ERCOT had a very active search strategy in 2007 and 2008 as opposed to a posting strategy, which was used in 2006. We added www.careerbuilder.com and www.dice.com while continuing our use of www.monster.com and Energy Central.
- Outside and internal recruiters utilized nontraditional internet sourcing to find and attach qualified applicants such as Google searches, industry chat rooms, direct e-mails to sourcing resources and individuals
- Recruiters and selected managers worked with placement offices at The University of Texas and Texas A&M University to encourage graduating engineers to consider ERCOT and developed a college recruiting plan.

- In 2008 ERCOT implemented e-recruiting a fully functioning web page where applicants can apply on-line and the searching of resumes can be handled in a more efficient manner.

Primary approach used to attract candidates – ERCOT candidates are "sold" on a job with ERCOT based on a variety of reasons. They include:

- Competitive compensation
- Solid benefits
- Excellent contributions to the 401K retirement plan
- A great work team
- Professional workforce
- Advancement opportunities
- Internal technical training
- Work stability
- Excellent reputation in the industry
- In 2008, we received an exemption to the immigration caps
- Nature of the business (non-profit)
- Austin/Taylor location may be a positive recruitment tool depending on the candidate's location and personal needs

Obstacles to recruitment – Some of these obstacles will be ongoing while others may be changed in the future. They include:

- Lack of bonus plans and stock options
- Some limitation on the amount of relocation reimbursement available at ERCOT
- Location of ERCOT facility (both a strength and obstacle)
- Strong competition for limited resources
 - Reduction of students who are choosing the power industry as a profession. 24,547 individuals awarded bachelor's degrees in electrical/electronic engineering in 1986 as compared to 500 in 2002

Recruitment Methods –

In 2008 both passive and active methods are being utilized in the recruiting strategy. Specific examples of these methods will include:

- Job fairs and open houses
- Limited ads in newspapers
- Installation of e-recruiting with Lawson – July of 2008
- Industry web pages and professional posting boards.
- Asking top employees, former employees, and friends of ERCOT to find and refer others like themselves
- Added employee referral program in 2007 and promoting it in 2008
- Recent graduates – Hire recent engineering graduates or students with one or two more years to finish their degree and continue the relationship to establish a long term fit for ERCOT
- Use of contracting agencies for temp-to-hire arrangements
- Managers identify the best in the industry - recruiters and managers then work on selling them on ERCOT
- Proactive internet search tools used to identify and search the web for specific qualified applicants
- Professional association lists

- Use of contingency based placement firms to generate additional candidates for selected positions
- Use of association meetings to discuss opportunities at ERCOT and sell the individual on the reason to work at ERCOT

Changes to the internal or external business environment which will affect recruiting – The move from zonal to nodal business design.

During the period 2007-2010, ERCOT will undergo a major change in its business processes and systems operation. This change will transition our operations from zonal to a nodal market design. This new operational environment may require changes in some of the capabilities of our staffing. The program will certainly require additional resources, as we will be required to run parallel systems during the major stages of implementation.

Measurable metrics established in 2008

- Time to fill
- Hiring source
- Diversity of hire.
- Recruiter's performance
- Termination report with reasons and exit survey
- New hire satisfaction survey – improvement noted in 2008

Follow-up Recruitment Review Process –

- Quarterly tracking of goals
- Monthly review of reasons for terminations to define retention issues
- Annually review return on investment of recruitment tools
- Review and assess recruiting and selection systems and processes to provide for continuous improvement and Improve technology to enhance recruitment and reduce time-to-hire
- Conduct annual review of salary grades and benefits for competitiveness
- Annual review of entire recruiting plan and strategy for alignment with business strategy