

PROPOSED REVISIONS TO ERCOT CODE OF CONDUCT

PURPOSE

The proposed revisions to the Code of Conduct are based on recommendation by Internal Audit and are intended to shift the focus to principals rather than specific actions. In addition, the revisions are intended to clarify management's role in maintaining an ethical business environment and to place additional emphasis on creating a culture of compliance.

SUMMARY OF CHANGES

- Duplications of language from corporate standards have been deleted.
- Provisions pertaining to individual and management responsibilities have been expanded.
- Additional information regarding reporting violations and use of EthicsPoint has been included.
- Specific references to the Public Utility Regulatory Act, NERC Reliability Standards and PUCT orders has been added.

MARKED CHANGES

Only substantive changes are marked on the attached draft. Formatting changes and information that has been relocated are not marked.

ERCOT CODE OF CONDUCT

Introduction

ERCOT's mission is to maintain the reliability of the bulk electric system and provide for an efficient and balanced wholesale electricity market in the ERCOT Region. This mission can be fulfilled only if ERCOT commands the confidence and respect of the industry, lawmakers and regulators, market participants, and the public ("Stakeholders").

Shared Responsibility

This Code of Conduct ~~defines~~ establishes the framework for ethical behavior required of all ERCOT employees and contract workers ("ERCOT Representatives") in dealing with our internal and external constituents. It ~~enables~~ guides us to make business decisions consistent with our corporate values Principles of integrity Business Conduct and operational excellence and to behave in a manner reflecting high ethical standards. ERCOT expects all ERCOT Representatives to conduct ERCOT's business in accordance with this Code of Conduct. Together, we are responsible for creating, preserving and enhancing ERCOT's reputation for honesty, integrity, and operational excellence. Application of the principles outlined in this Code is essential to achieving our corporate goals. Each of us, in our capacities at ERCOT—officer, employee or consultant performing work for ERCOT ("ERCOT Representative")—represents ERCOT.

Individual Responsibility

Each ERCOT Representative is responsible for knowing, understanding and complying with this Code of Conduct and the ERCOT policies, procedures and Protocols applicable to his/her job functions. In addition, each ERCOT Representative must participate in required ethics training and must reaffirm compliance with this Code of Conduct on an annual basis. We also have an obligation to know when to ask for guidance when we encounter ethical questions and dilemmas. To assist you in making the right decision, consider the following:

- Are my actions legal?
- Am I being fair and honest?
- Would my action or failure to act make the situation worse or allow a "wrong" to continue?
- How would my actions look if they were reported on the front page of a newspaper?

No single document can deal with the many issues that will arise in a dynamic work environment. If you have questions about legal or policy matters not covered in this Code of Conduct, you should consult with the Legal Department. If you have questions about proper conduct that does not involve laws, rules or regulations, you should consult with a manager, director or Human Resources. You should also review the ERCOT Employee Corporate Standard Manual and all approved corporate standards, policies and procedures relating to your conduct.

Each member

Management Responsibilities

The responsibility of ERCOT Representatives in management ~~has~~ positions are more extensive than those required of those in non-management roles. Managers are expected to build and maintain a culture of compliance with applicable laws and regulations and with ERCOT standards, policies, procedures and Protocols. Managers are expected to accomplish this by: ensuring that the responsibility to ensure applicable principles, policies and standards are communicated in a timely and

effective manner; ensuring that adequate internal controls exist within his/her area are implemented in their areas of responsibility; monitoring compliance; investigating potential violations; and taking prompt corrective action to remedy any identified weakness.

Reporting Violations

All ERCOT Representatives should feel free to consult with the Legal Department if you have questions or concerns about laws, rules or regulations. have an obligation to report suspected violations of this Code of Conduct. You may report your concerns to any ERCOT manager, director or officer, or to ERCOT's Human Resources or Internal Audit staff. Your report will be kept confidential to the fullest extent possible, consistent with the need to conduct an appropriate investigation and take appropriate corrective action.

ERCOT has also implemented an ethics reporting tool to provide a means to address compliance and ethical issues for Stakeholders and ERCOT Representatives who may not feel comfortable discussing the issue directly with their supervisor or another ERCOT employee. This reporting tool, operated by EthicsPoint, is available by phone or via the EthicsPoint website, 7 days a week, 365 days a year. You may call the EthicsPoint toll-free phone number, 1-866-384-4277, or visit www.ethicspoint.com to make a confidential report or to request guidance about laws, rules or regulations, this Code of Conduct and other ERCOT policies.

Calls to EthicsPoint are not traced and callers can choose to remain anonymous. Information from such calls and from online reports is forwarded to ERCOT staff members who are not involved in the matter reported. All reports are investigated to the extent possible using the reported information, and a response to the report is available online to the individual filing the report.

Principles of Business Conduct

- **Doing what is right**
- **Respecting the rights of others**
- **Upholding the law**
- **Maintaining the integrity, confidentiality and privacy of information**
- **Avoiding conflicts of interest**
- **Conducting ourselves appropriately**

Doing what is right

To be ethical is to know recognize the difference between right and wrong and to do what is right. Asking this question and applying this Code of Conduct ensures that our actions are ethical and consistent with ERCOT's mission and values. Additionally, ERCOT standards, policies, procedures and controls are created to guide us in our daily, business-specific activities as ERCOT Representatives.

Respecting the rights of others

Professional conduct

~~Management makes decisions regarding hiring and promoting employees on the basis of merit and in accordance with applicable provisions contained in human rights and employment legislation.~~ ERCOT Representatives shall treat each other in a respectful and professional manner and will not discriminate or harass others on the basis of age, sex, race, color, religion, creed, national origin, citizenship, veteran status, pregnancy, disability or other basis protected by law. For more information, read the *Equal Opportunity Corporate Standard* (CS 5.3) and *Harassment and Employee Responsibility Corporate Standard* (CS 5.4).

Property rights

Company assets, subject to limited approved exceptions, are used only for ERCOT business purposes. ERCOT Representatives have a responsibility to ensure that ERCOT assets are put to good use in successfully achieving ERCOT's mission and goals. ~~All ERCOT Representatives entrusted with managerial or supervisory responsibility must ensure that appropriate policies, standards, procedures and controls are in place and followed to safeguard company assets.~~ For more information, read CS 7.1, *Acceptable Use Corporate Standard* and CS5.25, *E-Mail and Telephone Usage Corporate Standard*.

Stakeholder rights

~~Stakeholder relationships are critical to ERCOT's continuing success.~~ ERCOT Representatives must conduct themselves with fairness, courtesy and in good faith during all stakeholder interactions. ~~The statute governing ERCOT's activities~~ Texas law requires that access to the transmission and distribution systems for all buyers and sellers of electricity in the ERCOT Region is available on non-discriminatory terms. If you have any discretion in applying any Protocol ~~provision~~ relating to the transmission of electricity, you must ensure that you apply the Protocol ~~provisions~~ in substantially the same manner to ~~the same or all~~ similarly-situated Market Participants.

Supplier rights

Relationships with vendors and suppliers must always be conducted at arm's-length, consistent with accepted business practices and in accordance with applicable laws and the applicable ERCOT Ethics Agreement. In dealing with suppliers, all ERCOT Representatives will conduct themselves with fairness, courtesy and in good faith.

Upholding the law

ERCOT, like other businesses, must abide by laws and regulations of general application, addressing issues such as safety, employment discrimination, anticompetitive conduct, and taxes. In addition, ERCOT is subject to mandates from additional sources defining how it must conduct its business: the North American Electric Reliability Corporation's (NERC) Reliability Standards; the Public Utility Regulatory Act (PURA); rules and orders of the Public Utility Commission of Texas; and ERCOT's own operating Protocols, market guides and procedures.

All ERCOT Representatives must comply with and uphold both the spirit and the letter of all applicable laws, rules, Protocols, guides and regulations where ERCOT conducts business.

Maintaining integrity, confidentiality and privacy of information

Company records and accounting practices

The integrity of ERCOT's records and financial reporting is critical to its ongoing success. ~~When you accept employment or an engagement with ERCOT as a consultant, you also accept a continuing moral and legal obligation to protect and not disclose confidential information to~~

~~outside parties.~~ All assets, liabilities and transactions must be accurately reported and supported by necessary documentation. No asset, liability or transaction is to be concealed from management or from ERCOT's internal or external auditors.

All documents and transactions (e.g. contracts) must be authorized and executed in accordance with ERCOT policies, standards and procedures. Appropriate accounting and financial policies, standards, procedures, controls and audit processes must be maintained. Financial reports must be accurate and prepared in accordance with generally accepted accounting principles.

Confidential Information

In order to support ERCOT's mission and functional requirements, ERCOT Representatives may receive confidential information from Market Participants or others. ~~Additionally, the Protocols (§1.3.1.1) describe certain information as "Protected Information" deserving protection., suppliers, or others.~~ During the performance of their roles, ERCOT Representatives may also generate confidential information ~~or receive confidential information belonging to entities, such as vendors, who are not Market Participants.~~ ERCOT Representatives will respect and ensure the confidentiality and privacy of confidential information and will comply with all standards, policies, procedures and controls for protecting information, unless disclosure is required by law or order of a regulatory agency or court, or otherwise authorized by ERCOT. ~~For more information, read CS5.19 Confidentiality Corporate Standard and CS6.1 Information Classification Corporate Standard.~~

No ERCOT Representative shall use any confidential information obtained in his/her capacity as an ERCOT Representative for personal gain or to ERCOT's detriment.

Personal information

ERCOT Representatives may have access to sensitive or confidential personal information, such as personnel records, payroll records, protected health information and financial information. In some cases, this information is subject to protection by applicable privacy laws. ERCOT Representatives must use extreme care when dealing with confidential, personal or sensitive information. As a general rule, such information shall not be: (i) released to anyone inside or outside of ERCOT not authorized or legally entitled to receive it, or (ii) used or disclosed for any reason except legitimate business purposes or when otherwise required by law. For more information, read CS5.5 *Request for Employee Information and Access to Employment Files Corporate Standard*; and CS5.19 *Confidentiality Corporate Standard*.

Avoiding conflicts of interest

All ERCOT Representatives must conduct ERCOT's business with complete objectivity and avoid situations in which their personal interests may conflict (or appear to conflict) with ERCOT's interests or those of its Market Participants. Conflicts may be difficult to detect and sometimes it is only a matter of degree between an acceptable and unacceptable activity. ~~Therefore~~ Accordingly, ERCOT Representatives must ~~ensure they~~ comply with the letter and spirit of ERCOT's conflict of interest corporate standard. ~~Any situation in which an individual's judgment may be compromised — where an ERCOT Representative shows undue favoritism to any person or entity or where an ERCOT Representative or a member of his/her family or household stands to gain or lose personally from an ERCOT business decision — must be avoided.~~ ERCOT Representatives shall not conduct business on ERCOT's behalf with a family or household member or a business entity with which the ERCOT Representative or his/her family or household member is associated, except where such dealings have been disclosed to ERCOT and ERCOT has given its specific written approval.⁴

~~The appearance of a conflict of interest may be just as damaging to ERCOT's reputation as an actual conflict of interest. ERCOT Representatives must take an objective look at their actions from time to time and avoid situations: (i) creating a conflict, (ii) creating the appearance of a conflict or (iii) that have the potential to create a conflict. For more information, read CS 5.18 Conflict of Interest Corporate Standard.~~

Gifts and benefits

~~ERCOT Representatives shall not accept any gifts, services, meals or any other cash or noncash benefits from employees or representatives of any Market Participant or any vendor or consultant doing business or seeking to do business with ERCOT without the prior written approval of the CEO, except for the limited circumstances set forth in CS5.18, Conflict of Interest Corporate Standard.~~

~~For more information, read CS5.18 Conflict of Interest Corporate Standard.~~

Conducting ourselves appropriately

ERCOT has important responsibilities to support the Texas community: providing reliable electric service, customer choice and well-functioning Ancillary Services markets. ~~We are citizens of the communities in which we have offices — where we work and live. Our~~ ERCOT's corporate citizenship is reflected in the way we fulfill our responsibilities and conduct our business — ~~as outlined in this Code of Conduct.~~ To that end, ERCOT Representatives should always remember the importance of maintaining high standards of ethical and professional conduct, both on the job and off.

Fraud Prevention

ERCOT is committed to maintaining the highest standards of business conduct and ethics in its accounting standards, disclosures, internal controls, audit practices, and prevention of fraud, intentional misrepresentations, and deception. ERCOT Representatives must comply with all applicable legal and regulatory requirements relating to corporate reporting, compliance and other matters pertaining to fraud prevention. Each ERCOT Representative has the responsibility to assist ERCOT in preventing fraud and meeting these requirements.

Antitrust

~~ERCOT Representatives must obey the antitrust laws and avoid all conduct that unreasonably restrains competition. This requires avoiding any conduct that violates, or that might appear to violate, the antitrust laws. Among other things, the antitrust laws forbid any agreement between or among competitors regarding prices, availability of service, product design, terms of sale, division of markets, allocation of customers or any other activity that unreasonably restrains competition.~~

~~All ERCOT Representatives who may in any way affect ERCOT's compliance with the antitrust laws must carry out this commitment and ensure that meetings involving Market Participants comply with this requirement. For more information, read CS 1.10 Antitrust Compliance Corporate Standard.~~

Professional standards

ERCOT Representatives holding professional credentials such as attorneys, accountants and engineers must comply with all relevant professional standards and rules of conduct when practicing their vocation in the service of ERCOT.

Compliance with this Code of Conduct

~~It is critical to ERCOT's success that ERCOT Representatives conduct themselves ethically and legally in every aspect of their business activities performed on ERCOT's behalf. All ERCOT Representatives must comply with this Code of Conduct and all applicable corporate standards, policies and procedures. Those in leadership positions within ERCOT must assume a responsibility to monitor the actions and conduct of those personnel reporting to them.~~

Reporting violations

~~Anyone who believes a violation of this Code of Conduct has occurred must report the violation to the Legal Department or by filing a report through EthicsPoint (www.ethicspoint.com or 1-866-384-4277). Reports to EthicsPoint may be submitted anonymously. When an investigation of a suspected Code violation indicates a violation has occurred, appropriate action will be taken including, but not limited to, termination of employment and instituting civil and/or criminal legal actions. ERCOT will not tolerate fraud, misconduct or abuse of the Ethics Agreement or Code of Conduct.~~

Interpretations

Interpretations of this Code of Conduct may be made only by the ERCOT General Counsel or his/her delegate; provided, however that any interpretations involving Texas Regional Entity staff must be made by Texas Regional Entity Director, Legal Affairs after conferring with ERCOT General Counsel. No employee may authorize a violation of this Code of Conduct and no outside attorney has the authority to interpret the Code of Conduct.

Any ERCOT Representative (except for Texas Regional Entity staff) with concerns or questions about these requirements and prohibitions should contact the Legal Department, ~~and~~ and Texas Regional Entity staff should contact the Texas Regional Entity Director, Legal Affairs.