



MEMORANDUM

To: Board of Directors
From: Andrew Dalton, Chair of the Human Resources and Governance Committee
Date: December 9, 2011
Re: Item 9b - Additional Proposed Revisions to the Board Policies and Procedures related to Unaffiliated Director Compensation Guidelines

By way of background, the Unaffiliated Director compensation procedures were last modified in the fall of 2008. Now after the divestiture of the Texas RE and the launch and implementation of the nodal market, the Unaffiliated Director compensation guidelines appear to merit reconsideration. In addition, the Human Resources and Governance (HR&G) Committee or a subcommittee thereof has historically reviewed Unaffiliated Director compensation every three years.

I propose that the HR&G Committee and the Board consider establishing Unaffiliated Director compensation based on a flat annual retainer with fees for any missed meetings. For 2012, the Board has established a meeting schedule which eliminates two monthly Board meetings and the HR&G and Finance and Audit Committees have established a meeting schedule which eliminates six monthly meetings for each Committee.

Accordingly, I would propose the following modification to Section 2.8.1 of the Board Policies and Procedures as follows:

- \$87,000 flat annual retainer paid in equal monthly installments.
 - Current annual retainer is \$40,000; but this flat retainer eliminates all of the monthly payments for Board and Committee meetings.
 - The flat amount is \$2,800 less than the current compensation caps.
- There would be fees (deductions) from the annual retainer for missed meetings.
 - \$4,250 fee for any Board meeting missed in a given month;
 - \$2,500 fee for missing Committee meetings;
 - \$500 fee for any missed special meetings; and
- \$5,600 additional payment for Unaffiliated Directors that serve as Committee Chairs.
 - New payment incents the Unaffiliated Directors to take on those roles.
- \$12,800 additional payment for the Board Chair.
 - Equals the existing Board Chair cap.

These proposed edits are incorporated into the attached proposed Board Policies and Procedures, which is the same version provided in support of Agenda Item 9b with your Board meeting materials with added modifications to Section 2.8.1.

With these changes, total Unaffiliated Director compensation is equal to the current maximum Unaffiliated Director compensation cap compensation levels, but better structures the payments and incentives. Making these changes would also obviate the need to reevaluate the per-meeting payments in light of the streamlined Board meeting schedule for 2012, which may be modified during the year as we gain experience with the new meeting schedule. These modifications also provide more predictability for the budget for 2013.

Based on our experience with this year's meeting schedule and workload, I would also propose we also reevaluate these changes at the end of next year. I look forward to discussing this matter with you during the HR&G Committee and Board meetings on December 12-13, 2011.