



**The Finance and Audit (F&A) Committee is expected to consider F&A Committee Agenda Item 7: *Recommendation regarding Committee Charter* at its meeting on January 14, 2013.**

**The Board of Directors is expected to hear the F&A Committee's recommendation on this matter as part of the F&A Committee Report at the Board meeting on January 15, 2013.**

**Attached are the F&A Committee and Board materials in relation to these agenda items.**



**Date:** January 8, 2013  
**To:** Board of Directors  
**From:** Finance and Audit (F&A) Committee Chair  
**Subject:** F&A Committee Charter

**Issue for the ERCOT Board of Directors**

**ERCOT Board of Directors Meeting Date:** January 15, 2013

**Item No.:** 13.1

**Issue:**

Whether to approve the ERCOT staff-proposed F&A Committee Charter, and whether to recommend and approve any changes to the Charter.

**Background/History:**

The F&A Committee Charter is reviewed annually and updated as needed. ERCOT staff has reviewed the document and respectfully propose several changes to the F&A Committee Charter. The F&A Charter reflecting occurrence of the required annual review is incorporated in *Attachment A*.

The F&A Committee is expected to review the F&A Committee Charter at its meeting on January 14, 2013, and the F&A Committee is expected to recommend that the Board of Directors (Board) adopt, reject, or amend the F&A Committee Charter at the January 15, 2013 Board meeting.

**Key Factors Influencing Issue:**

The F&A Committee Charter identifies the functions that the F&A Committee is to perform and is reviewed annually to ensure that the F&A Committee continues to address relevant issues and to assist the Board in providing necessary oversight consistent with fiduciary duties.

**Conclusion/Recommendation:**

The F&A Committee is expected to review the F&A Committee Charter at their meeting on January 14, 2013, and is expected to recommend to the Board of Directors whether any F&A Committee Charter revisions should be made. If the F&A Committee recommends revisions to the F&A Committee Charter, then it is expected that the F&A Committee will recommend that the revisions become effective upon approval by the Board.



**ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.**  
**BOARD OF DIRECTORS RESOLUTION**

WHEREAS, after due consideration of the alternatives, the Board of Directors (Board) of Electric Reliability Council of Texas, Inc. (ERCOT) deems it desirable and in the best interest of ERCOT to make several revisions to the F&A Committee Charter consistent with the document appended to this resolution and incorporated as *Attachment A* hereto; and

WHEREAS, after due consideration of the alternatives, the Board deems it desirable and in the best interest of ERCOT to approve the F&A Committee Charter as recommended by the F&A Committee;

THEREFORE, BE IT RESOLVED, that the F&A Committee Charter is approved consistent with *Attachment A*, to be effective immediately.

**CORPORATE SECRETARY'S CERTIFICATE**

I, Vickie G. Leady, Assistant Corporate Secretary of ERCOT, do hereby certify that, at its January 15, 2013 meeting, the ERCOT Board passed a motion approving the above Resolution by \_\_\_\_\_.

IN WITNESS WHEREOF, I have hereunto set my hand this \_\_\_\_ day of January, 2013.

\_\_\_\_\_  
Vickie G. Leady  
Assistant Corporate Secretary



**ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.**  
**FINANCE & AUDIT COMMITTEE CHARTER**

**Purpose**

The Finance and Audit Committee (the “Committee”) of the Board of Directors (“Board”) of Electric Reliability Council of Texas, Inc. (“ERCOT” or the “Company”) shall:

1. Oversee the development of and adherence to a Company budget;
2. Provide recommendations to the Board for financing Company needs, including both debt and revenue financing;
3. Review and make recommendations to the Board regarding investment and financial guidelines for the Company;
4. Review and make recommendations to the Board regarding credit standards, procedures, governance, ERCOT Protocols and other market rules which impact credit risk;
5. Ensure that the Company’s financial statements are timely audited by qualified accountants who are independent;
6. Assist the Board in fulfilling its oversight responsibility with respect to the Company’s maintenance of an effective internal audit function;
7. Establish and maintain procedures for the receipt (including anonymous submission), retention and treatment of complaints regarding accounting, internal controls, and auditing;
8. Perform such other duties and responsibilities enumerated in and consistent with this Charter.

The Committee’s function is one of oversight, recognizing that the Company’s management is responsible for preparing the Company’s financial statements, and the independent auditor is responsible for auditing those statements. In adopting this Charter, the Board acknowledges that the Committee members (“Committee Members”) are not employees of the Company (with the exception of ERCOT’s Chief Executive Officer) and are not providing any expert or special assurance as to the Company’s financial statements or any professional certification as to the external auditor’s work or auditing standards. Each Committee Member shall be entitled to rely on the integrity of staff and external auditors to provide accurate, complete financial and other information to the Committee, absent actual knowledge to the contrary, and shall also exercise their fiduciary duties as Directors, including their duties of care, loyalty, and obedience.

While the Committee has the responsibilities, duties and powers set forth in this Charter, it shall be the responsibility and duty of the Company’s management and independent auditor, and not the responsibility or duty of the Committee, to plan or conduct audits, to make any determination that the Company’s financial statements are complete, accurate and in accordance with generally accepted accounting principles, and to assure compliance with laws, regulations and the Company’s ethics policies. It is the responsibility of the Committee to conduct investigations and resolve disagreements regarding financial reporting, if any, between management and the independent auditor.

The Committee shall provide assistance to the Board in fulfilling its oversight responsibility relating to the Company’s financial statements and the financial reporting process, the systems of internal accounting and financial controls, the annual independent audit of the Company’s financial statements and the legal compliance and ethics programs as established by management

and the Board. In so doing, it is the responsibility of the Committee to maintain free and open communication between the Committee and the Company's independent auditors, internal accounting personnel and management.

### **Membership and Qualifications**

#### **Committee Composition; Committee Member Qualifications; and Term**

The Board members shall decide from among themselves who shall participate in the Committee. The Committee shall be comprised of at least five Board members, at least three of which are from Market Segments and two or more of which must be Unaffiliated Board members. Each Committee Member must be able to read and understand fundamental financial statements, including the balance sheet, income statement and cash flow statement. Each Committee Member shall also meet any experience requirements as may be established from time to time by the Board. The term of the Committee and its Committee Members shall be for not more than one year.

#### **Designation and Qualifications of Committee Financial Expert**

At least one Committee Member shall be designated a "financial expert" as such term may be defined from time to time by the Board consistent with definitions generally accepted by the accounting industry or other regulatory authorities (the "Financial Expert"). At a minimum, the Financial Expert must have past employment experience in finance or accounting, requisite professional certification in accounting or any other comparable experience or background which ensures the individual's financial sophistication, including a past or current position as a Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO") or other senior officer with financial oversight responsibilities. The Board shall endeavor to appoint at least one Board member to the Committee as the Financial Expert.

#### **Election of Committee Chair; and Chair Qualifications**

The Chair of the Committee shall be elected through a majority vote of the Committee Members. The Committee Chair shall not be the CEO of the Company and shall have accounting or related financial management expertise.

### **Authority**

#### **Power to Investigate**

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 the Company 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 Committee Members for Committee purposes. The Committee may request any officer or employee of the Company, the Company's outside counsel or the Company's independent auditor to attend a meeting of the Committee or to meet with any Committee Member or any consultants to the Committee.

The Committee may appoint workgroups or task forces to investigate issues defined by the Committee. Members of such workgroups or task forces need not be Directors. Such workgroups or task forces shall have no authority to bind the Committee or the Company.

**Reporting Relationship and Role of Company's Chief Audit Executive**

The Director of Internal Audit is the Chief Audit Executive at the Company. The Company's Chief Audit Executive shall report directly to the Committee. For administrative purposes, the Chief Audit Executive shall report to the CEO. The Committee shall approve an Annual Internal Audit Plan prepared by the Chief Audit Executive. The Chief Audit Executive shall (1) manage the execution of the Annual Internal Audit Plan, (2) conduct investigations at the direction of the Chair and the Committee, and (3) make periodic reports to the Committee at regularly scheduled Committee meetings and as otherwise directed by the Chair and the Committee.

**Quorum and Action by Committee Members**

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

**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 the Company's Articles of Incorporation and Bylaws:

**With respect to internal controls:**

1. Annually, the Committee shall receive report from management regarding the adequacy and effectiveness of the Company's internal controls.

**With respect to budget oversight and financing:**

1. Annually, the Committee shall review staff's proposed budget for the following year.
2. The Committee shall review the staff's recommendation of the amount and type of financing needed, both revenue and debt financing, to support the proposed budget and meet the Company's liquidity needs.
3. Following the Committee's review of the above items, the Committee shall recommend to the Board, a proposed budget and associated financing plan for the following year.
4. As needed throughout the year, the Committee shall review staff's recommendations regarding specific debt financing transactions and make recommendations to the Board for approval.

**With respect to maintaining investment and financial guidelines for the Company, the Committee shall:**

1. Establish standards by which the Company will invest funds and maintain its financial health/strength and review these standards at least annually, recommending updates to the Board of Directors as needed.

***With respect to the Company's credit policies and standards:***

1. Establish a standard by which the Board will seek to maintain the long-term financial integrity of the ERCOT market and review this standard at least annually, recommending updates to the Board of Directors as needed.
2. The Committee shall review the Company's credit policies to consider:
  - a. Appropriateness of credit practices and creditworthiness standards established for market participants;
  - b. Compliance with existing creditworthiness standards by market participants;
  - c. Compliance with credit-related Protocols and market rules; and
  - d. Development of appropriate methods to evaluate and mitigate credit risk;
3. In establishing or reviewing the standard under Item 1 above and in conducting the review under Item 2 above the Committee shall consider the recommendations of staff and the Credit Work Group and the decisions and recommendations of the appropriate stakeholder groups, including the Technical Advisory Committee and the Market Credit Work Group.
4. Following each such review, the Committee may, in its discretion, recommend to the Board any proposed changes to the previously approved standard or credit policies.

***With respect to the independent auditors engaged to audit ERCOT: ~~financial statements:~~***

1. Annually, the Committee shall recommend to the Board the selection and engagement of a qualified independent public accounting firms to:
  - a. Perform audit of ERCOT's the financial statements of ERCOT. The Committee shall fulfill the oversight responsibility of the Board with respect to the independent auditors' audit of the books and accounts of the Company and for the fiscal year for which it is appointed.
  - b. Perform Statement on Standards for Attestation Engagements (SSAE) 16 audit of ERCOT's controls related to settlement operations.
  - c. Perform annual audit of ERCOT's 401(k) Savings Plan.
- ~~1.2.~~ Establish the Company's policies relating to the solicitation and engagement for independent audit services.
- ~~2.3.~~ The Committee shall approve the provision of all auditing and non-audit services (in excess of \$5,000) by the independent auditor to the Company in advance of the provision of those services and shall also approve the fees for all non-audit services provided by the independent auditor.
- ~~3.4.~~ Provision of non-audit services of less than or equal to \$5,000 by the independent auditor to the Company do not require pre-approval from the Committee, but shall be communicated in writing to the Committee Members at the first meeting following the engagement for the non-audit services at issue.
- ~~4.5.~~ In connection with the Committee's approval of non-audit services, the Committee shall consider whether the independent auditor's performance of any non-audit services is compatible with the external auditor's independence.
- ~~5.6.~~ At least annually, the Committee shall obtain and review a report by the independent auditor describing:
  - a. The independent auditor's internal quality control procedures; and
  - b. All relationships between the independent auditor and the Company, in order to assess the auditor's independence.

- 6.7. The Committee shall also review any report by the independent auditor describing:
- Significant accounting policies and practices used by the Company;
  - Alternative treatments of financial information as required to be discussed by the independent auditors with the Committee; and
  - ~~e.~~ Any other material written communication between the independent auditors firm and the Company's management.
8. Establish the Company's hiring policies for employees who are former employees of the Company's independent auditors.

***With respect to the Company's financial statements:***

- The Committee shall discuss the annual audited financial statements with management and the independent auditor, including the Company's disclosures.
- The Committee shall review disclosures made to the Committee by the Company's CEO and Vice President of Finance and Treasury about any significant deficiencies in the design or operation of the internal controls or material weaknesses therein and any fraud involving management or other employees who have a significant role in the Company's internal controls.
- In connection with its review of the Company's financial statements, the Committee shall 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.
- Review major changes to the Company's auditing and accounting principles and practices as suggested by the independent auditor, internal auditors or management.
- Review with management and the independent auditor any correspondence with regulators or governmental agencies and any employee complaints or published reports that raise material issues regarding the Company's financial statements or accounting policies.
- Review with management and the independent auditor the effect of regulatory and accounting initiatives as well as off-balance sheet structures on the Company's financial statements.
- Review any and all press stories that relate to the Company's accounting and disclosure, require that management or the auditor explain any negative comments and determine whether these comments necessitate a change in the accounting structure of the Company.
- Based on its review and discussions with management, the Chief Audit Executive and the independent auditor, the Committee shall provide a recommendation to the Board whether the Company's financial statements audit report should be accepted.

***With respect to ~~the independent auditors engaged to perform ERCOT's the Company's annual Statement on Standards for Attestation Engagements (SSAE) 16 audit and 401(k) Savings Plan audits:~~***

- ~~Periodically select and authorize engagement of an independent audit firm to perform annual SSAE 16 audit of ERCOT's controls related to settlement operations.~~
- ~~2.1.~~ As necessary, before and during ~~SSAE 16~~ audit fieldwork, the Committee shall discuss with management and the independent auditor the planning and execution of the audit.
- ~~3.2.~~ Based on its review and discussions with management and the independent auditor, the Committee shall provide a recommendation to the Board whether the ~~Company's SSAE 16~~ audit report should be accepted.



~~***With respect to the independent auditors engaged to perform ERCOT's annual 401(k) Savings Plan audit:***~~

- ~~a. Periodically select and authorize engagement of an independent audit firm to perform annual audit of ERCOT's 401(k) Savings Plan.~~
- ~~2. As necessary, before and during 401(k) Savings Plan audit fieldwork, the Committee shall discuss with management and the independent auditor the planning and execution of the audit.~~
- ~~3. Based on its review and discussions with management and the independent auditor, the Committee shall provide a recommendation to the Board whether the Company's 401(k) Savings Plan audit report should be accepted.~~

***With respect to periodic reviews and reports:***

1. Periodically, the committee shall meet separately with senior management, the Chief Audit Executive and the independent auditors.
2. The Committee shall review with the independent auditor any audit problems or difficulties and management's response to them.
3. The Committee shall review the Company's policies with respect to risk assessment and risk management.
4. The Committee shall inquire of management and the independent auditors about significant risks or exposures to the Company and the Company's market and assess the steps management has taken to minimize such risks.
5. The Committee shall establish procedures for:
  - a. The receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters; and
  - b. The confidential, anonymous submission by the Company's employees of concerns regarding accounting or auditing matters.
6. The Committee shall review a summary of the Company's dealings with any financial institutions that are also market participants.
7. The Committee shall communicate to the Board the matters discussed at each meeting of the Committee, including any issues with respect to the quality or integrity of the Company's financial statements, the performance and independence of the Company's independent auditors or the performance of the internal audit function.
8. The Committee shall review and assess the adequacy of this Charter annually and recommend any proposed changes to the Board.

***With respect to Internal Audit:***

1. The Committee shall review with management and the Chief Audit Executive the charter, activities, staffing, and organizational structure of the internal audit function.
2. The Committee shall have final authority to review and approve the Annual Internal Audit Plan and all major changes to the Plan.
3. The Committee shall review, considering the recommendations of the independent auditors and the CEO, the scope of the Internal Audit Plan and the plan of work to be done by the Company's Internal Audit Department, and the results of such work.
4. The Committee shall review the reports to management prepared by the Internal Audit Department and management's responses.

5. The Committee shall ensure there are no unjustified restrictions or limitations, and review and concur in the appointment, replacement, or dismissal of the Chief Audit Executive.
6. The Committee shall, at least once per year, review the performance of the Chief Audit Executive and concur with the annual compensation and salary adjustment.
7. The Committee shall review the adequacy and effectiveness of the internal audit function, including compliance with The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.
8. The Committee shall, on a regular basis, meet separately with the Chief Audit Executive in executive session of a Committee meeting to discuss any matters that the committee or Internal Audit believes should be discussed privately.

## **Meetings**

### **Frequency of Meetings**

The Committee shall meet at least once during each fiscal quarter, and as many additional times as the Committee shall deem necessary or appropriate.

### **Chair's Authority Relating to Meeting Management**

The Chair, in consultation with the Vice President of Finance and Treasury, 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.

### **Attendance at Open Session and Executive Session of Committee Meetings**

Any member of the public may attend and participate in the open session of Committee meetings. For the executive session of Committee meetings, the Committee shall close the Committee meeting to the public to address sensitive matters such as confidential personnel information, contracts, lawsuits, competitively sensitive information, or other information related to the security of the regional electrical network. For such executive sessions of Committee meetings, the Committee may request that any officers or employees of the Company, 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. In addition, for such executive sessions of the Committee meetings, the Committee may exclude any persons who are not Directors, the Directors' Segment Alternates or the Directors' Alternate Representatives.

### **Participation and Voting During Committee Meetings**

**Board members who are not Committee Members (including Segment Alternates and Alternate Representatives) may attend and participate in all Committee meetings, but may not participate in Committee voting.**

## **Minutes**

The Committee shall designate a secretary, who may be a Committee Member or employee of ERCOT, who shall prepare or cause to be prepared the minutes of each meeting and file such



minutes with the corporate records of the Company. The secretary shall send, or cause to be sent, copies of such minutes to each of the Committee Members.

### **Evaluation**

The Committee shall undertake an annual evaluation assessing its performance and, in light of this, consider changes in its membership, Charter or procedures. The Committee shall report to the Board the results of its evaluation, including recommended Charter, membership and other changes, if any.