



Date: September 10, 2013
To: Board of Directors
From: Bill Magness, Vice-President, General Counsel and Corporate Secretary
Subject: ERCOT Employee and Director/Segment Alternate Ethics Agreements

Issue for the ERCOT Board of Directors

ERCOT Board of Directors Meeting Date: September 17, 2012

Item No.: 10.1

Issue:

Whether the Board of Directors (Board) of Electric Reliability Council of Texas, Inc. (ERCOT) should approve modifications to the ERCOT Employee Ethics Agreement proposed by ERCOT Legal and to allow the existing Ethics Agreement for ERCOT Directors and Segment Alternates to be utilized without any modifications.

Background/History:

The ERCOT Employee Ethics Agreement (Employee Ethics Agreement) and ERCOT Director and Segment Alternate Ethics Agreement (Director/Segment Alternate Ethics Agreement) are reviewed annually by the Human Resources and Governance (HR&G) Committee. The HR&G Committee is responsible for recommending any modifications to the Employee and Director/Segment Alternate Ethics Agreements to the Board for approval.

The Director/Segment Alternate Ethics Agreement was last modified on March 14, 2011. ERCOT Legal does not recommend any modifications to the Director/Segment Alternate Ethics Agreement, which is attached as *Attachment A*, at this time.

ERCOT Legal does recommend clarifying and streamlining modifications to the Employee Ethics Agreement, which is provided as *Attachment B*. The changes are part of an ongoing effort to review internal ERCOT documents and make them more concise, accurate, and “user-friendly.”

The revisions in *Attachment B* do not alter or diminish the ethical requirements and obligations of ERCOT employees included in prior versions of the Employee Ethics Agreements. Rather, the revised Agreement seeks to explain the requirements and obligations in a more precise, less jargon-laden form. The revision also re-emphasizes the central role of the “ERCOT Code of Conduct” as the primary artifact memorializing ERCOT’s commitment to ethics and integrity.

The ERCOT Executive Team reviewed the revised Employee Ethics Agreement, and recommends the approval of *Attachment B*. ERCOT Legal plans to use the revised agreement as part of the annual ERCOT ethics training for 2013. The training program includes a requirement that each ERCOT employee review the Employee Ethics Agreement, affirm his or her ethical compliance, and provide any appropriate disclosures of potential conflicts of interest.

**Key Factors Influencing Issue:**

The HR&G Committee Charter requires that the HR&G Committee perform an annual review of all ethics agreements for ERCOT employees, Directors and Segment Alternates, and make recommendations to the Board for approval of any modifications to such ethics agreements. Unless the Committee or Board directs ERCOT staff to make changes to the Director/Segment Alternate Ethics Agreement, there is no need to vote to approve the existing agreement. Since ERCOT Legal has proposed changes to the Employee Ethics Agreement, a vote of the Board of Directors is required to approve the revised version of the Employee Ethics Agreement.

Conclusion/Recommendation:

ERCOT Legal will request that the HR&G Committee review the existing Director/Segment Alternate Ethics Agreement (*Attachment A*), as contemplated by the HR&G Committee Charter, at its September 16, 2013 meeting.

ERCOT Legal will request that the HR&G Committee review the revised Employee Ethics Agreement (*Attachment B*), at its September 16, 2013 meeting, and vote to recommend its approval by the Board of Directors at its September 17, 2013 meeting. ERCOT Legal recommends that the Board approve the proposed changes to the Employee Ethics Agreement.



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

WHEREAS, after its meeting on September 16, 2013, the Human Resources and Governance (HR&G) Committee of the Board of Directors (Board) of Electric Reliability Council of Texas, Inc. (ERCOT) has recommended modifications to the ERCOT Employee Ethics Agreement in the form attached hereto;

WHEREAS, after due consideration of the alternatives, the Board deems it desirable and in the best interest of ERCOT to approve such modifications to the ERCOT Employee Ethics Agreement;

THEREFORE, BE IT RESOLVED, that the Board hereby approves the modifications to the ERCOT Employee Ethics Agreement consistent with the form attached to this resolution.

CORPORATE SECRETARY'S CERTIFICATE

I, Vickie G. Leady, Assistant Corporate Secretary of ERCOT, do hereby certify that, at its September 17, 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 September, 2013.

Vickie G. Leady
Assistant Corporate Secretary



Ethics Agreement for Directors and Segment Alternates

Electric Reliability Council of Texas, Inc. ("ERCOT") is a Texas non-profit corporation organized pursuant to the Texas Non-Profit Corporation Act. ERCOT has been formed for the limited purpose of: promoting the reliable and efficient operations of electric power systems, ensuring open access for all users of the ERCOT transmission and distribution systems on a non-discriminatory basis, coordinating activities within the region of the Electric Reliability Council of Texas and as liaison to the North American Electric Reliability Corporation, performing the functions of an Independent Organization, and engaging in any lawful act and activity consistent with the foregoing for which corporations may be formed under the Texas Non-Profit Corporation Act. ERCOT is certified as the Independent Organization for the ERCOT Region by the Public Utility Commission of Texas ("PUC").

The management of ERCOT is vested in a Board of Directors ("Board") and such committees of the Board that the Board may, from time to time, establish. It is the duty of the Board to initiate any specific action required, in their opinion, to fulfill the purposes of ERCOT as stated above, within the limitations of the Articles of Incorporation, applicable laws and the Bylaws, as may be amended from time to time.

Potential Conflicts of Interest

Each Director and Segment Alternate of ERCOT shall have an affirmative duty to disclose to the Board, any actual or potential conflicts of interest of the Director, Segment Alternate, or his employer where, and to the extent that, such conflicts or potential conflicts directly or indirectly affect any matter that comes before the Board as required by the Bylaws. A Director or Segment Alternate with a direct interest in a matter, personally or via his employer, or by having a substantial financial interest in a person with a direct interest in a matter, shall recuse himself from deliberations and actions on the matter in which the conflict arises and shall abstain on any vote on the matter and not otherwise participate in a decision on the matter. A direct interest is a specific interest of a person or entity in a particular matter, provided that an interest that is common to entities in the Market Segment of a Director or Segment Alternate or a general interest of some or all Market Participant Directors or Segment Alternates in a matter does not constitute direct interest. Any disclosure of a direct interest by a Director or Segment Alternate shall be noted in the minutes of the Board meeting at which the direct interest is disclosed. Mere attendance at the meeting, if the Director or Segment Alternate recuses himself from the deliberation and action on the matter in which the conflict arises, shall not constitute participation.

Each Director and Segment Alternate must disclose all personal relationships (including household member or family member (spouse, parent, child, or sibling, including step and adoptive relatives) relationships) with ERCOT vendors to the Board. Such relationships include: current ties (within the last two years) as a director, officer, or employee of an ERCOT vendor; direct business relationships, other than retail customer relationships, with an ERCOT vendor; and directly or indirectly owning or holding at least five percent (5%) of voting securities of an ERCOT vendor.



ERCOT may not make any loan to a Director or Segment Alternate of ERCOT. A Director or Segment Alternate may lend money to and otherwise transact business with, ERCOT except as otherwise provided by the Bylaws, the Articles of Incorporation, and applicable law. Such a person transacting business with ERCOT has the same rights and obligations relating to those matters as other persons transacting business with ERCOT. If a Director, a Segment Alternate, or member of his immediate family is an officer or director, is employed by, or owns or has a beneficial interest in more than ten percent of the stock in a bank or other financial institution that would otherwise be a Qualified Institution (as defined in ERCOT's Investment Corporate Standard), such Director or Segment Alternate shall provide full disclosure of such stock holdings or relationship in documented form to be filed with the permanent records of ERCOT. ERCOT may not borrow money from, or otherwise transact business with, a Director or a Segment Alternate unless the transaction is described fully in a legally binding instrument and is in ERCOT's best interests. ERCOT may not borrow money from, or otherwise transact business with, a Director or a Segment Alternate without full disclosure of all relevant facts and without the Board's approval, not including the vote of any person having a personal interest in the transaction.

Independence of Unaffiliated Directors

Unaffiliated Directors of ERCOT are required to maintain independence of any Market Participant in the ERCOT Region. Requirements of such independence include, but are not limited to, the following:

- An Unaffiliated Director or family member (any spouse, parent, spouse of a parent, child or sibling, including step and adoptive relatives and household member) shall not have the following:
 - Current or recent ties (within the last two years) as a director or officer of a Market Participant or its Affiliates;
 - Current or recent ties (within the last two years) as an employee of an ERCOT Member or North American Electric Reliability Corporation-Registered Entity operating in the ERCOT Region;
 - Direct business relationships, other than retail customer relationships, with a Market Participant or its Affiliates; and
 - To the extent that an Unaffiliated Director or family member (any spouse, parent, spouse of a parent, child or sibling, including step and adoptive relatives) living in the same household or any other household member owns stocks or bonds of Market Participants, these must be divested or placed in a blind trust prior to being seated on the Board.
- An Unaffiliated Director shall not have any relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of an ERCOT Board member, including the Delegated Authority pursuant to the Bylaws.



Prohibited Acts

As long as ERCOT exists, no Director or Segment Alternate may:

- Do any act in violation of the Articles of Incorporation or the Bylaws.
- Do any act in violation of a binding obligation of ERCOT except with the Board's prior approval.
- Do any act with the intention of harming ERCOT or any of its operations.
- Receive an improper personal benefit from the operation of ERCOT.
- Use ERCOT's assets, directly or indirectly, for any purpose other than in furtherance of ERCOT's exempt purposes.
- Wrongfully transfer or dispose of ERCOT property, including intangible property such as good will.
- Use ERCOT's name (or any substantially similar name) or any trademark or trade name adopted by ERCOT, except on behalf of ERCOT in the ordinary course of its business or as a reference to the ERCOT Region.
- Disclose any of ERCOT's or ERCOT Member's business practices, trade secrets, or any other confidential or proprietary information not generally known to the business community to any person not authorized to receive it.
- Take any action, without written notice to Members and reasonable time for Members to respond, that would cause another ERCOT Member that is not a "public utility" under the Federal Power Act or ERCOT itself to become a "public utility" under the Federal Energy Regulatory Commission ("FERC") rules or become subject to any plenary jurisdiction of FERC.

Violations of these prohibited acts may lead to sanction, suspension, expulsion or termination after a hearing as described in Article 3 of the Bylaws.

The Ethics Agreement is not intended to alter in any way the duties, obligations and rights of Directors or Segment Alternates as set forth in the Articles of Incorporation, Bylaws and applicable law, as they may be amended from time to time, nor does it create any third party rights, claims or causes of action. To the extent, if any, that the Ethics Agreement is inconsistent with the Articles of Incorporation, Bylaws or applicable law, the Articles of Incorporation, Bylaws and applicable laws, as they may be amended from time to time, shall control. Directors and Segment Alternates will be required to reaffirm the Ethics Agreement on an annual basis.

By my signature I, _____, acknowledge that I have read and understand the above Ethics Agreement and agree to be bound by its terms.

Director/Segment Alternate Signature: _____

Date: _____

ERCOT CODE OF CONDUCT – THE WAY WE WORK

Shared Responsibility

This Code of Conduct 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 guides us to make business decisions consistent with our Principles of Business Conduct 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.

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 matters not covered in this Code of Conduct, you should consult with the Legal Department. If you have questions about conduct that does not involve laws, rules, or regulations, you should consult with your manager or Human Resources business partner.

Management Responsibilities

ERCOT Representatives in management positions 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 applicable principles, policies and standards are communicated in a timely and effective manner; ensuring that adequate internal controls are implemented in their areas of responsibility; monitoring compliance; investigating potential violations; and taking prompt corrective action to remedy any identified weaknesses.

Reporting Violations

All ERCOT Representatives 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 Legal Department, 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 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 and confidentiality of information
- Avoiding Conflicts of Interest
- Conducting ourselves appropriately

Doing What is Right

To be ethical is to 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

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* (CS5.3) and *Harassment and Employee Responsibility Corporate Standard* (CS5.4).

Use of ERCOT Assets

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. For more information, read the *Acceptable Use Corporate Standard* (CS7.1) and the *E-Mail and Telephone Usage Corporate Standard* (CS5.25).

Stakeholder Interaction

ERCOT Representatives must conduct themselves with fairness, courtesy and in good faith during all stakeholder interactions. 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, you must ensure that you apply the Protocol in substantially the same manner to all similarly-situated Market Participants.

Vendor Relationships

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 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 and Rules of Procedure; the Public Utility Regulatory Act (PURA); rules and orders of the Public Utility Commission of Texas; and ERCOT's own operating Protocols and Other Binding Documents. All ERCOT Representatives must comply with and uphold both the spirit and letter of all applicable laws and regulations.

Maintaining Integrity and Confidentiality of Information

Company Records and Accounting Practices

The integrity of ERCOT's records and financial reporting is critical to its on-going success. 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, suppliers, or others. During the performance of their roles, ERCOT Representatives may also generate confidential information. ERCOT Representatives will respect and ensure the confidentiality 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.

"Confidential Information" means all information that is: (a) marked "Confidential" by the entity providing the information; (b) defined as "Confidential Information" in Section 1500 of the NERC Rules of Procedure; (c) defined as "Protected Information" in Section 1.3 of the ERCOT Protocols; or (d) labeled "ERCOT Confidential" or "ERCOT Restricted." Confidential Information specifically includes all documents, knowledge, and electronic, tangible, or intangible information provided, which is or includes any of the following:

- Information, technical data, or know-how that relates to the business, services, or products of ERCOT, owners, operators, and users of the bulk power system, including Registered Entities on NERC's Compliance Registry, and ERCOT's Members and Market Participants, or any of their consultants or vendors, that was developed or acquired by that business and that is proprietary, or competitively or commercially sensitive;
- Critical Energy Infrastructure Information (CEII);
- Personnel information that identifies or could be used to identify a specific individual or reveals financial, medical, or other personal information;

- Work papers, including any records produced for or created in the course of an evaluation or audit;
- Investigative files, including any records produced for or created during the course of an investigation; or
- Cyber Security Incident information.

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. ERCOT Representatives may not trade or assist others to trade in securities of third-parties (such as Suppliers) if, because of your position with ERCOT, you have access to material non-public information about that third-party.

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 the *Request for Employee Information and Access to Employment Files Corporate Standard* (CS5.5); and the *Confidentiality Corporate Standard* (CS5.19).

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. Accordingly, ERCOT Representatives must comply with the letter and spirit of *ERCOT's Conflict of Interest Corporate Standard* (CS5.18).

Any circumstance that could cause even the appearance of self-interested action by an ERCOT Representative, or an undue benefit being provided to a Dependent Party, Related Party, Supplier, or Market Participant should be disclosed so ERCOT management can evaluate the potential Conflict of Interest.

ERCOT Representatives must immediately inform ERCOT Legal if a Conflict of Interest or even the appearance of a Conflict of Interest might exist to allow ERCOT officers to evaluate the situation. After full disclosure by the ERCOT Representative, ERCOT officers may agree to conditions that appropriately limit any potential influence from a Conflict of Interest.

Conducting Ourselves Appropriately

Commitment to Community

ERCOT has important responsibilities to support the Texas community: providing reliable electric service, customer choice, and well-functioning Ancillary Services markets. ERCOT's corporate citizenship is reflected in the way we fulfill our responsibilities and conduct our business. 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, 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.

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.

Interpretations

Interpretations of this Code of Conduct may be made only by the ERCOT General Counsel, or his or her delegate. 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 with concerns or questions about these requirements and prohibitions should contact ERCOT Legal.

EMPLOYEE ETHICS AGREEMENT

Employees of Electric Reliability Council of Texas, Inc. ("ERCOT") must conduct ERCOT's business with integrity and objectivity toward ERCOT, and all ERCOT Members and Market Participants. That is why ERCOT requires employees to annually affirm their commitment to the ethical standards that are essential to working at ERCOT. Before completing this Employee Ethics Agreement, you should review the ERCOT Code of Conduct and participate in any associated ethics training.

If you have questions or concerns about the requirements or prohibitions in the ERCOT Code of Conduct, please contact ERCOT Legal, or file an anonymous report through EthicsPoint (www.ethicspoint.com or 1-866-384-4277).

Employee Agreement

By checking the box below, I confirm that I have read and understand the ERCOT Code of Conduct and have participated in any associated ethics training required by ERCOT. I agree to conduct myself in accordance with the principles and standards discussed in the ERCOT Code of Conduct, and I have made any required disclosures below.

☐ I agree to the foregoing terms.

(Please complete the Disclosure section below even if you have no potential conflicts to disclose.)

Disclosure of Potential Conflicts of Interest

ERCOT company policy requires all employees to disclose any employment or independent contracting services for a Market Participant that involve an employee's child, parent, sibling, or any other individual who lives in the employee's household. A listing of ERCOT Market Participants is available at: <http://www.ercot.com/mktparticipants>.

ERCOT also encourages employees to disclose other potential conflicts that may call into question an employee's ability to conduct ERCOT's business without the appearance of Conflicts of Interest with Market Participants or Suppliers of services to ERCOT. Examples of potential conflicts are discussed in CS5.18, ERCOT's Conflict of Interest Corporate Standard. Management evaluates employee disclosures to determine whether, based upon the employee's job responsibilities, any Conflict of Interest exists (and whether to take any steps to address it).

☐ Check this box if you have no Conflicts of Interest to report.

Potential Conflicts of Interest:

Name of Person or Entity: Relationship to Employee:

Description of Potential Conflict:

Potential Conflicts of Interest:

Name of Person or Entity: Relationship to Employee:

Description of Potential Conflict: