



MEMORANDUM

Date: June 1, 2015
To: Human Resources and Governance (HR&G) Committee
From: Bill Magness, General Counsel, Senior Vice President of Governance,
Risk and Compliance & Corporate Secretary
Subject: Item 6 – Unaffiliated Director Succession Planning

The HR&G Committee Charter provides that the Committee shall annually “consider and plan for the orderly re-appointment of existing Unaffiliated Directors.”

I. Requirements regarding Unaffiliated Director Selection and Terms

As you will see below, ERCOT is subject to various requirements regarding the selection process for Unaffiliated Directors, including specific qualifications, and their terms of service on the Board of Directors.

A. Statutory Requirements

Section 39.151(g)(7) of the Public Utility Regulatory Act (PURA) requires that five members of the ERCOT Board of Directors (Board) be “unaffiliated with any market segment and selected by the other members of the governing body to serve three-year terms”. This Section further requires that the process for electing Unaffiliated Directors be specified in Bylaws which are approved by the Public Utility Commission of Texas (PUCT), that a professional search firm is used to identify candidates, and that PUCT input be considered in identifying candidates.

B. PUCT Rule Requirements

PUCT Substantive Rule Section 25.362 (g)(5) provides in part that:

ERCOT shall provide information to the commissioners concerning their process for selecting a new member [*i.e.*, Unaffiliated Director], the candidates who have been identified and their qualifications, any recommendation that will be made to the governing board, and any other information requested by a commissioner. The selection of an unaffiliated member of the governing board is subject to approval by the commission.

C. Bylaws Requirements

Section 4.3(b) of the Amended and Restated Bylaws of Electric Reliability Council of Texas, Inc., effective September 11, 2014 (Bylaws) provide that the Nominating Committee of the Board of Directors shall be responsible for the selection of the Unaffiliated Directors, including the selection of the professional search firm and recommendation of selected candidates directly to ERCOT’s Corporate Members for election and approval, subject to PUCT approval. Section 4.3(c) of the Bylaws provides that Unaffiliated Directors shall serve three year terms, “which shall be staggered to the extent possible,” and that they may be reelected for up to two consecutive terms.



Section 4.5(f) of the Bylaws provides that any Director shall serve “until the earlier of the expiration of his term, resignation, ineligibility, inability to serve or removal”.

D. Board Policies and Procedures

Section 7.3.2 of the Board Policies and Procedures, amended effective August 12, 2014 (BP&P), provides that Unaffiliated Directors shall give notice six months prior to their expiration of their term of their intent to seek re-election and that the Nominating Committee will vote on whether the Unaffiliated Director should be re-elected. Section 7.3.4 of the BP&P provides that “[w]here feasible, elections for Unaffiliated Directors will be held and approval by the PUCT sought within a timeframe that will allow such Directors to be seated on the Board so as to avoid or minimize the length of Unaffiliated Director vacancies on the Board”.

II. Current Unaffiliated Director Terms

Although the first three Unaffiliated Directors who served on the Board in 2003 were initially staggered (*i.e.*, individual terms of 1.5, 2.5 and 3.5 years) by PUCT order, the staggering of one year between terms of each Unaffiliated Director has changed due to the timing of seating or resignations of subsequent Unaffiliated Directors.

A summary of the terms of the current Unaffiliated Directors is provided below for ease of reference:

Current Unaffiliated Director (listed in order of term expiration)	Expiration Date of Current Term	Renewal Terms	Comments
Craven Crowell	12/31/2017	Eligible for 1 Renewal	Must provide intent to seek re-election for final term by June 30, 2017.
Karl Pfirrmann	12/31/2017	Eligible for 1 Renewal	Must provide intent to seek re-election for final term by June 30, 2017.
Judy Walsh	12/31/2017	Eligible for 1 Renewal	Must provide intent to seek re-election for final term by June 30, 2017.
Jorge Bermudez	06/30/2016	Eligible for 1 Renewal	Must provide intent to seek re-election for final term by December 31, 2015.
Vacancy created upon expiration of Michehl Gent’s third and final term on May 9, 2015	N/A	N/A	Peter Cramton has been elected by the ERCOT Corporate Members subject to approval by the PUCT. A petition for his approval is pending at the PUCT. No decision by the PUCT is expected before mid-August 2015.



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ERCOT Legal closely monitors the timing of Unaffiliated Directors' terms and assists the Nominating Committee with planning for succession for these positions to avoid vacancies on the Board to the extent reasonably foreseeable.

We look forward to discussing this matter with you at the June 8, 2015 meeting.