



Item 10: Debt Strategy Discussion

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Treasurer

Finance & Audit Committee Meeting
ERCOT Public
February 8, 2016

Agenda

- **Receive recap of historical use of debt**
- **Discuss potential future debt strategy**
 - Should ERCOT use debt funding?
 - Liquidity needs
 - Regular, recurring investment in technology assets with 3-5 year lives
 - Significant, irregular investment in assets
 - If so, what type of debt and debt structure?
 - Bank financing, private placement debt, or other alternatives
 - Fixed or variable interest rates
 - Straight-line or balloon repayment options
- **Confirm action items for future Committee meetings**

Recap of Historical Use of Debt

Direction regarding ERCOT's use of debt

- **Amended and Restated Bylaws of ERCOT**
- **Board of Directors policies**
- **Finance and Audit Committee Charter**
- **Financial Corporate Standard**
- **PUC Substantive Rule 25.363, ERCOT Budget and Fees**

The documents listed above are included in appendices of these materials.

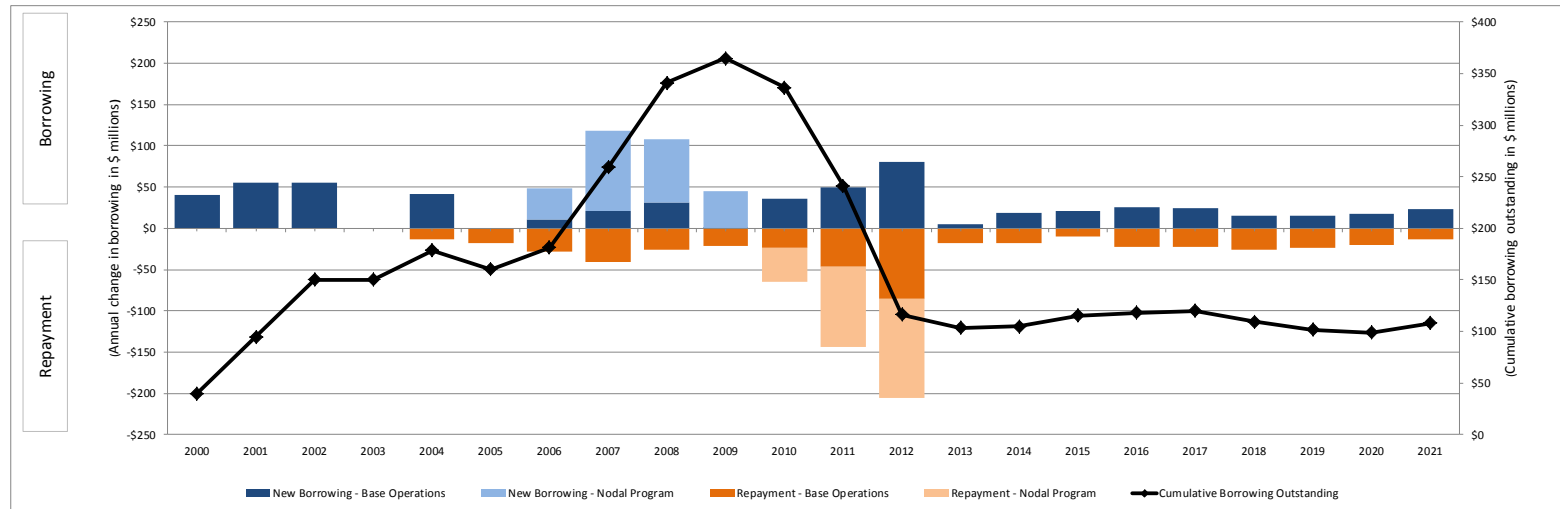


Primary rationale for past direction on debt use

Rationale	Direction (Financial Corporate Standard)
Low, fair, and stable fees	"In determining the combination of equity and debt to be used, ERCOT will consider the impact of the current year decision on future years, ..."
Low cost	"... regularly evaluate alternatives to conventional financing to obtain the lowest overall cost of borrowing while still meeting the objectives of this Financial Corporate Standard. "
Balance sheet strength	<p>"... structure debt issues such that the average maturity of the debt does not exceed the average life of the assets financed; however, debt issues may be structured with a longer or shorter average maturity if economically justified."</p> <p>"... in no event will ERCOT propose to self-fund less than 40 percent of Project Budgets ..."</p>
Access to capital	"... maintain an investment grade debt rating ..."
Interest rate risk mitigation	"... in no event will ERCOT allow un-hedged, variable rate debt to be more than 40 percent of total debt outstanding."

Past direction revealed in actual debt usage

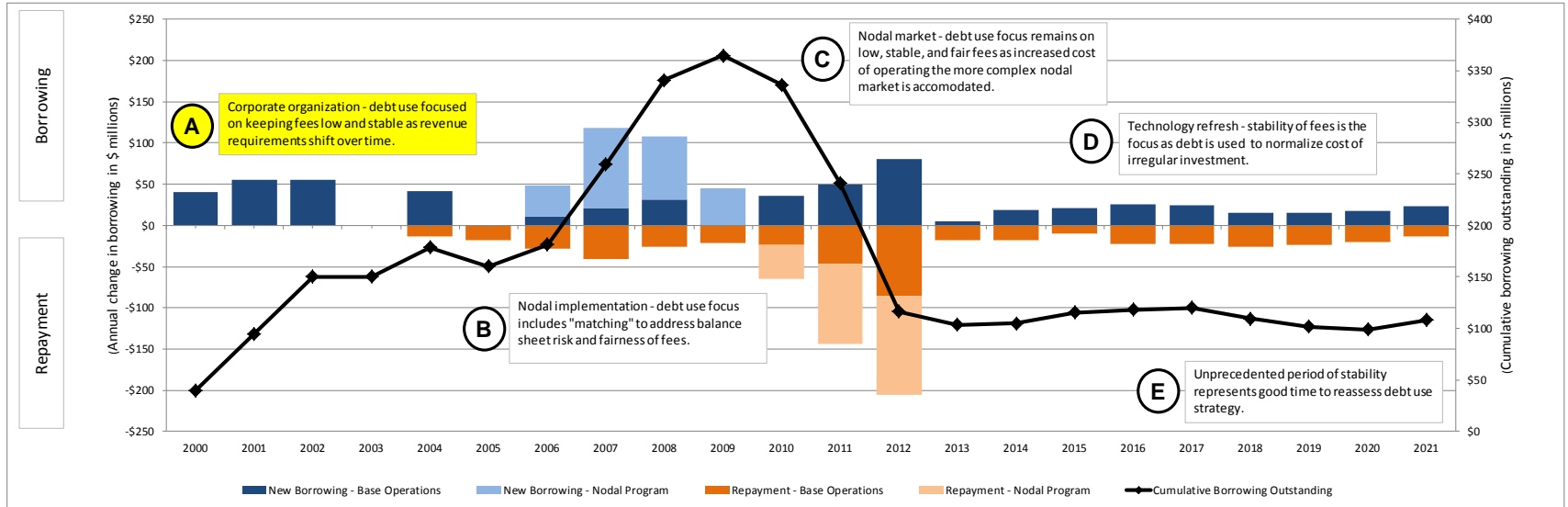
Debt and Working Capital Profile Summary (2000-2021)



	Actual																			Budget			
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	
(\$ Millions)																							
Base Operations																							
New Borrowing	40.0	55.0	55.0	-	42.0	-	10.2	21.3	31.3	0.0	35.7	49.0	80.0	5.0	19.0	20.5	25.5	24.3	15.6	15.6	17.4	22.8	
Repayment	-	-	-	-	(13.6)	(18.1)	(27.9)	(40.4)	(26.1)	(21.3)	(23.9)	(47.0)	(85.0)	(17.6)	(17.6)	(10.0)	(22.8)	(22.3)	(26.1)	(23.8)	(19.9)	(13.8)	
Change in Base Operations Borrowing	40.0	55.0	55.0	-	28.4	(18.1)	(17.7)	(19.1)	5.2	(21.3)	11.8	2.0	(5.0)	(12.6)	1.4	10.5	2.8	2.0	(10.5)	(8.2)	(2.5)	9.0	
Base Operations Borrowing Outstanding	40.0	95.0	150.0	150.0	178.4	160.2	142.5	123.4	128.6	107.3	119.2	121.2	116.2	103.6	105.0	115.5	118.2	120.2	109.7	101.5	99.0	108.0	
Nodal Program																							
New Borrowing	-	-	-	-	-	-	38.6	97.0	76.8	45.1	-	-	-	-	-	-	-	-	-	-	-	-	
Repayment	-	-	-	-	-	-	-	-	-	-	(40.4)	(96.9)	(120.1)	-	-	-	-	-	-	-	-	-	
Change in Nodal Program Borrowing	-	-	-	-	-	-	38.6	97.0	76.8	45.1	(40.4)	(96.9)	(120.1)	-	-	-	-	-	-	-	-	-	
Nodal Program Borrowing Outstanding	-	-	-	-	-	-	38.6	135.5	212.3	257.4	217.0	120.0	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	
Total ERCOT Borrowing																							
New Borrowing	40.0	55.0	55.0	-	42.0	-	48.8	118.3	108.1	45.1	35.7	49.0	80.0	5.0	19.0	20.5	25.5	24.3	15.6	15.6	17.4	22.8	
Repayment	-	-	-	-	(13.6)	(18.1)	(27.9)	(40.4)	(26.1)	(21.3)	(64.3)	(143.9)	(205.1)	(17.6)	(17.6)	(10.0)	(22.8)	(22.3)	(26.1)	(23.8)	(19.9)	(13.8)	
Change in Total Borrowing	40.0	55.0	55.0	-	28.4	(18.1)	20.9	77.9	82.0	23.8	(28.6)	(94.9)	(125.1)	(12.6)	1.4	10.5	2.8	2.0	(10.5)	(8.2)	(2.5)	9.0	
Total Borrowing Outstanding	40.0	95.0	150.0	150.0	178.4	160.2	181.1	259.0	340.9	364.7	336.2	241.2	116.1	103.5	104.9	115.4	118.3	120.2	109.7	101.5	99.0	108.0	
Leverage Ratio																							
Total Assets	80.2	165.8	268.6	244.3	245.6	341.1	322.0	519.6	738.7	667.6	818.4	1,085.3	1,115.1	1,215.0	893.3	na	na	na	na	na	na	na	
Total Borrowing Outstanding to Total Assets	0.50	0.57	0.56	0.61	0.73	0.47	0.56	0.50	0.46	0.55	0.41	0.22	0.10	0.09	0.12	na	na	na	na	na	na	na	
Interest Cost Analysis																							
Cash Paid for Interest	1.3	4.3	6.2	9.4	9.3	9.4	8.8	10.5	14.8	15.3	15.0	12.1	7.0	3.8	2.8	na	na	na	na	na	na	na	
Load in GWh	281.1	270.6	280.8	285.0	289.1	299.3	305.7	307.8	312.5	308.3	319.3	335.1	327.0	332.5	341.4	na	na	na	na	na	na	na	
Cash Paid for Interest per MWh	0.0046	0.0159	0.0221	0.0330	0.0322	0.0314	0.0288	0.0341	0.0474	0.0496	0.0470	0.0361	0.0214	0.0114	0.0081	na	na	na	na	na	na	na	

Debt use during corporate organization

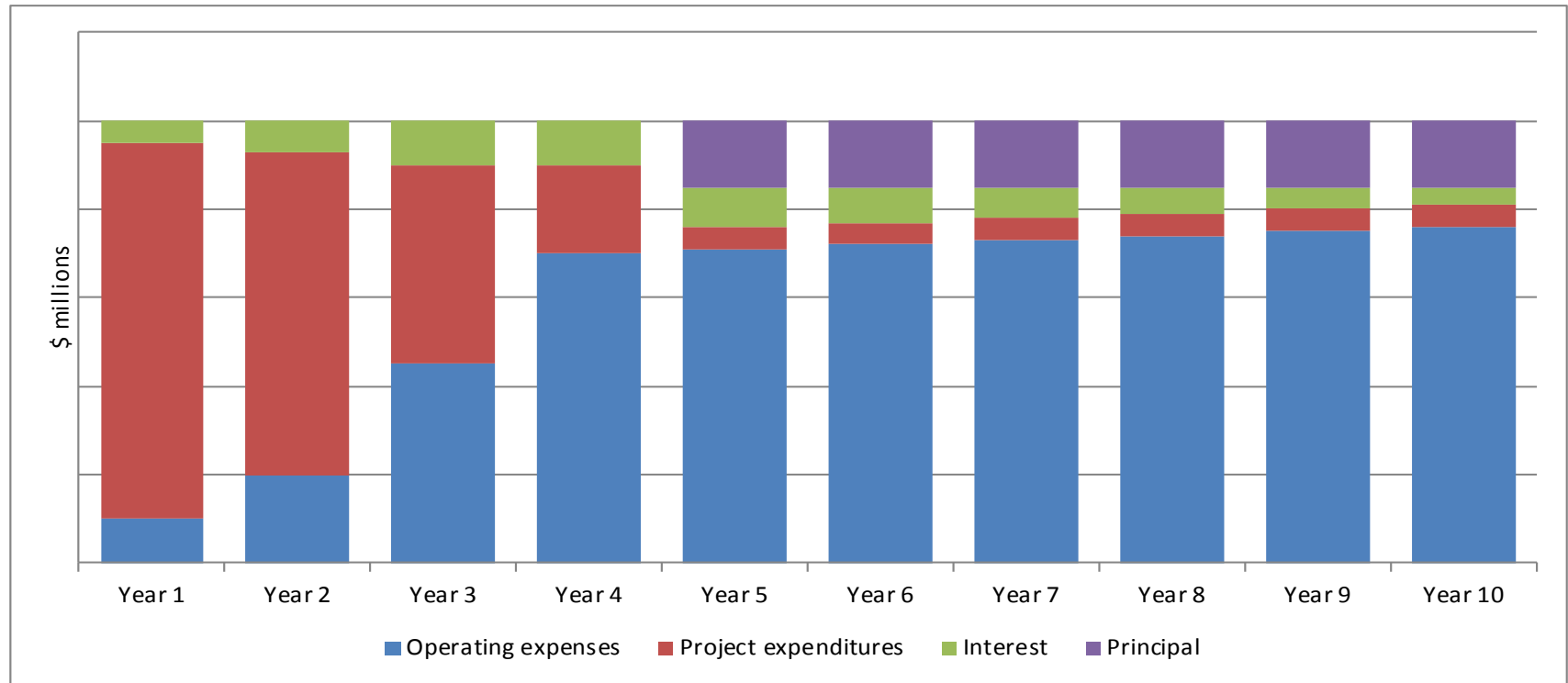
Debt and Working Capital Profile Summary (2000-2021)



- Corporate organization - debt use focused on keeping fees low and stable as revenue requirements shift over time.

Debt use during corporate organization

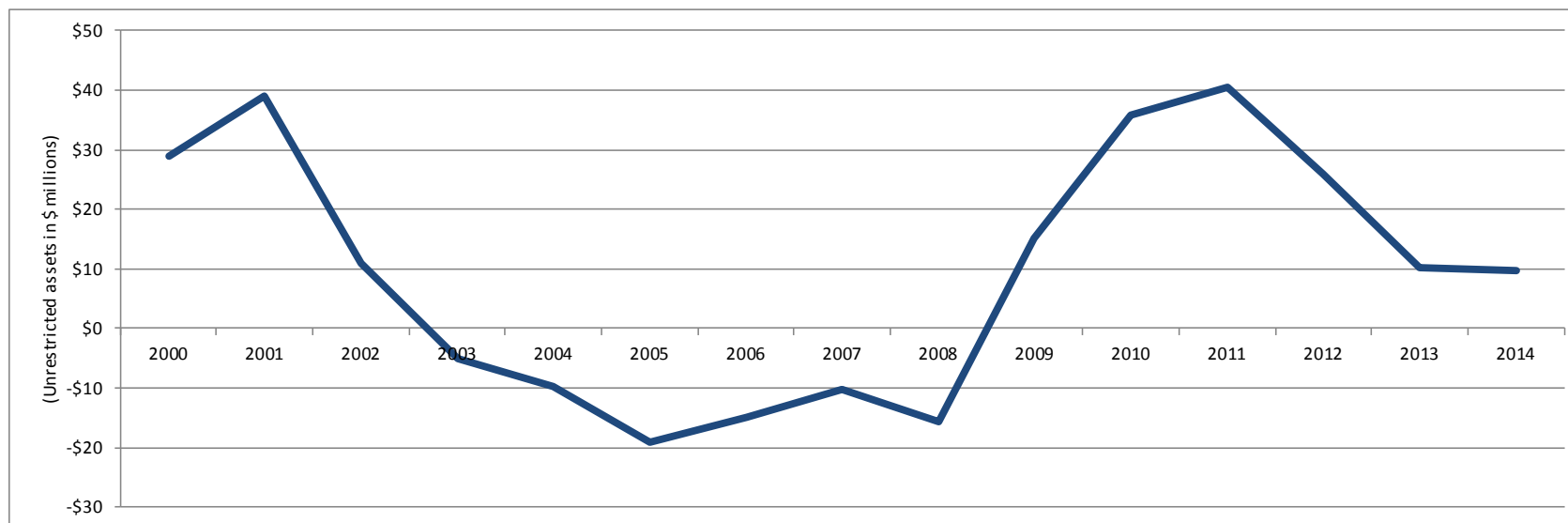
Conceptual Revenue Requirement Forecast at the Time of Corporate Organization



- Incur debt to fund high project expenditures in the first few years.
- Postpone principal repayment until project demand is expected to subside and extend principal repayment to maintain a low, stable total revenue requirement and system administration fee.

Debt use during corporate organization

Balance sheet consequence of not matching useful lives of assets and liabilities

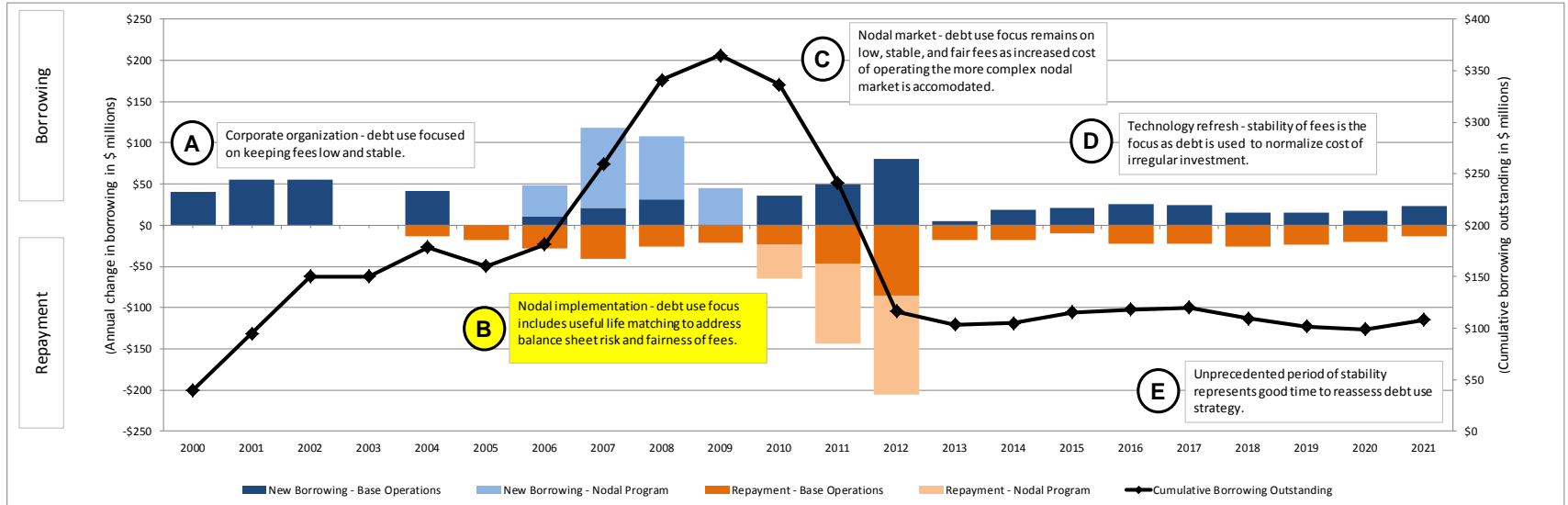


	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Unrestricted net assets	28.8	39.0	10.8	(5.1)	(9.6)	(19.1)	(14.9)	(10.2)	(15.8)	15.0	35.9	40.5	26.0	10.2	9.6	-
Assets	80.2	165.8	268.6	244.3	245.6	341.1	322.0	519.6	738.7	667.6	818.4	1,085.3	1,115.1	1,215.0	893.3	-
Liabilities	51.4	126.8	257.8	249.4	255.2	360.2	337.0	529.8	754.4	652.6	782.6	1,044.9	1,089.1	1,204.9	883.7	-

- Negative unrestricted net assets pose risk to ERCOT's credit rating and access to affordable debt among other issues.

Debt use during Nodal implementation

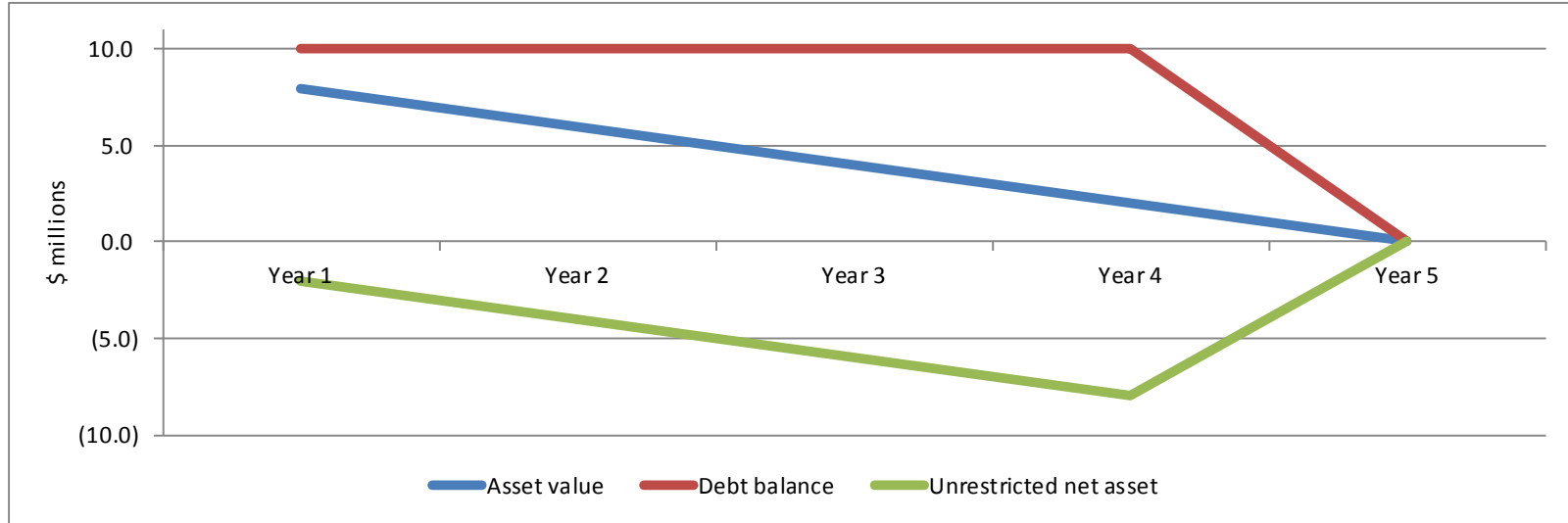
Debt and Working Capital Profile Summary (2000-2021)



- Nodal implementation - debt use focus includes useful life matching to address balance sheet risk and fairness of fees.

Debt use during Nodal implementation

Balloon matching - Paying for the asset at the end of the asset's useful life

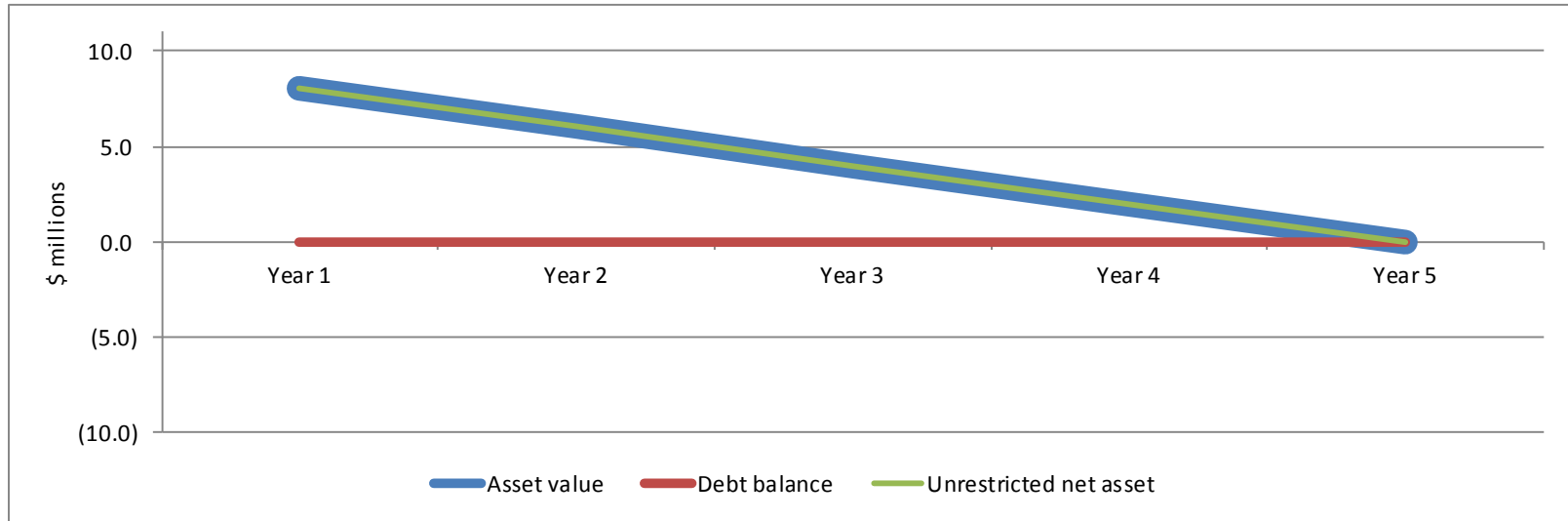


	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Investment	0.0	0.0	0.0	0.0	10.0	10.0
Interest cost (3%)	0.3	0.3	0.3	0.3	0.0	1.2
Incremental fee	\$ 0.0009	\$ 0.0008	\$ 0.0008	\$ 0.0008	\$ 0.0267	\$ 0.0062

	Year 1	Year 2	Year 3	Year 4	Year 5
Asset value	8.0	6.0	4.0	2.0	0.0
Debt balance	10.0	10.0	10.0	10.0	0.0
Unrestricted net asset	(2.0)	(4.0)	(6.0)	(8.0)	0.0

Debt use during Nodal implementation

No matching - Paying up-front for investment in assets

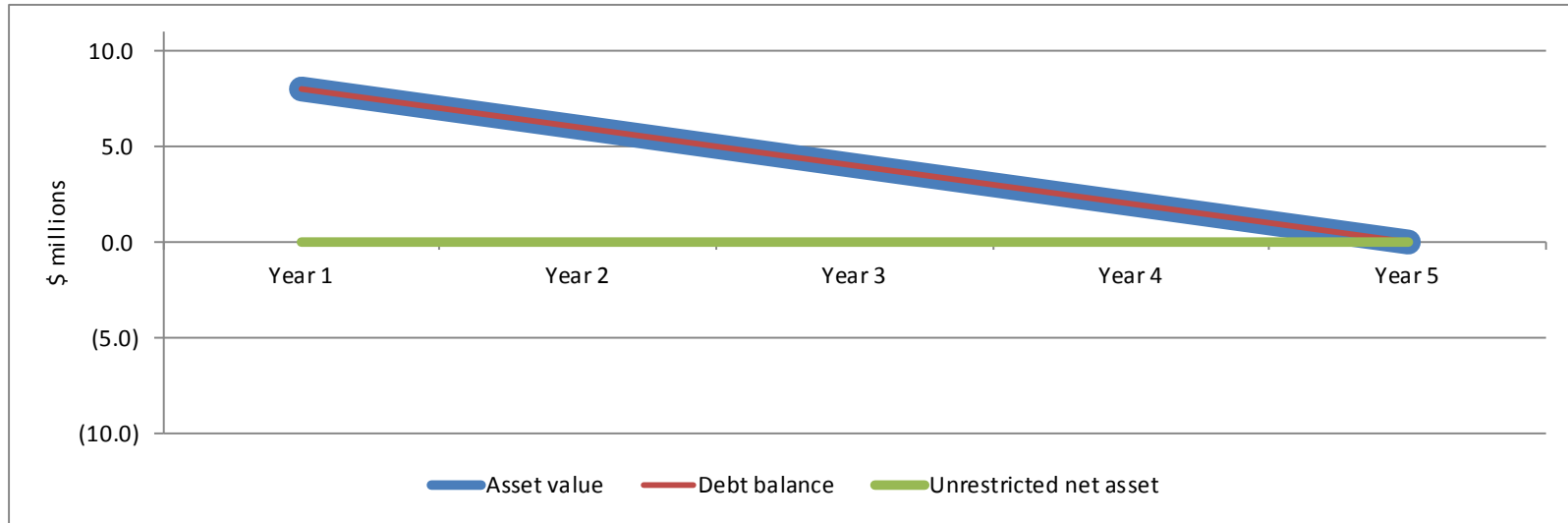


	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Investment	10.0	0.0	0.0	0.0	0.0	10.0
Interest cost (3%)	0.0	0.0	0.0	0.0	0.0	0.0
Incremental fee	\$ 0.0286	\$ -	\$ -	\$ -	\$ -	\$ 0.0055

	Year 1	Year 2	Year 3	Year 4	Year 5
Asset value	8.0	6.0	4.0	2.0	0.0
Debt balance	0.0	0.0	0.0	0.0	0.0
Unrestricted net asset	8.0	6.0	4.0	2.0	0.0

Debt use during Nodal implementation

Straight-line matching - Paying for the asset over the useful life of the asset

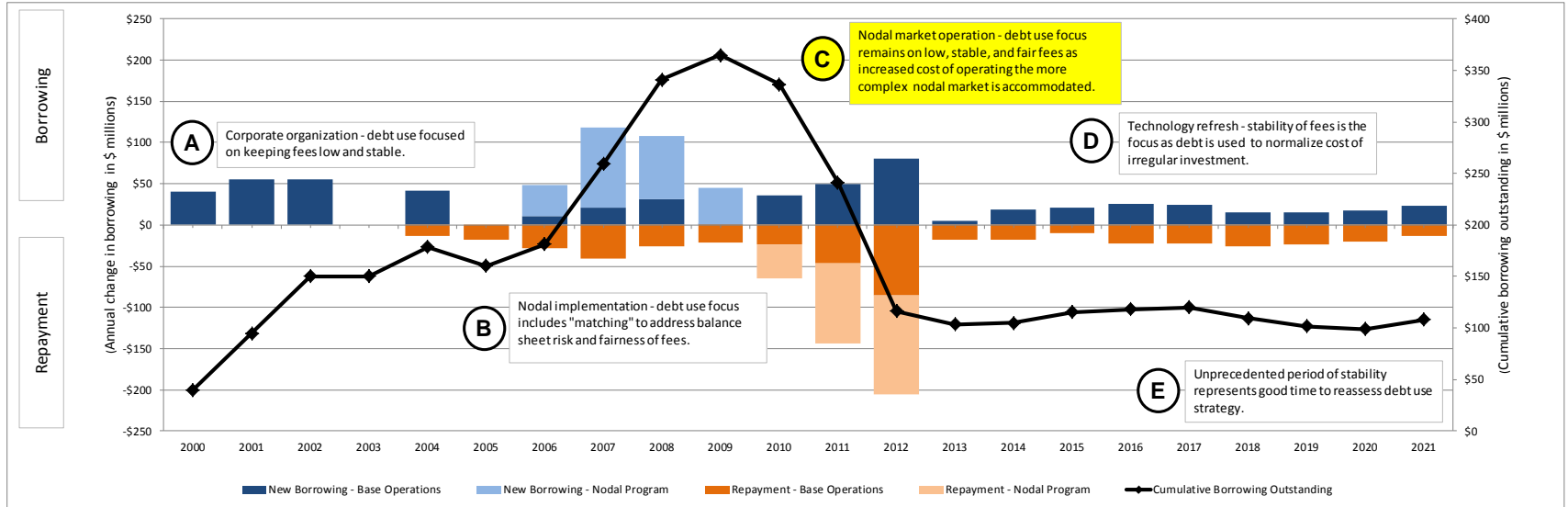


	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Investment	2.0	2.0	2.0	2.0	2.0	10.0
Interest cost (3%)	0.2	0.2	0.1	0.1	0.0	0.6
Incremental fee	\$ 0.0064	\$ 0.0061	\$ 0.0059	\$ 0.0056	\$ 0.0053	\$ 0.0059

	Year 1	Year 2	Year 3	Year 4	Year 5
Asset value	8.0	6.0	4.0	2.0	0.0
Debt balance	8.0	6.0	4.0	2.0	0.0
Unrestricted net asset	0.0	0.0	0.0	0.0	0.0

Debt use during Nodal market operation

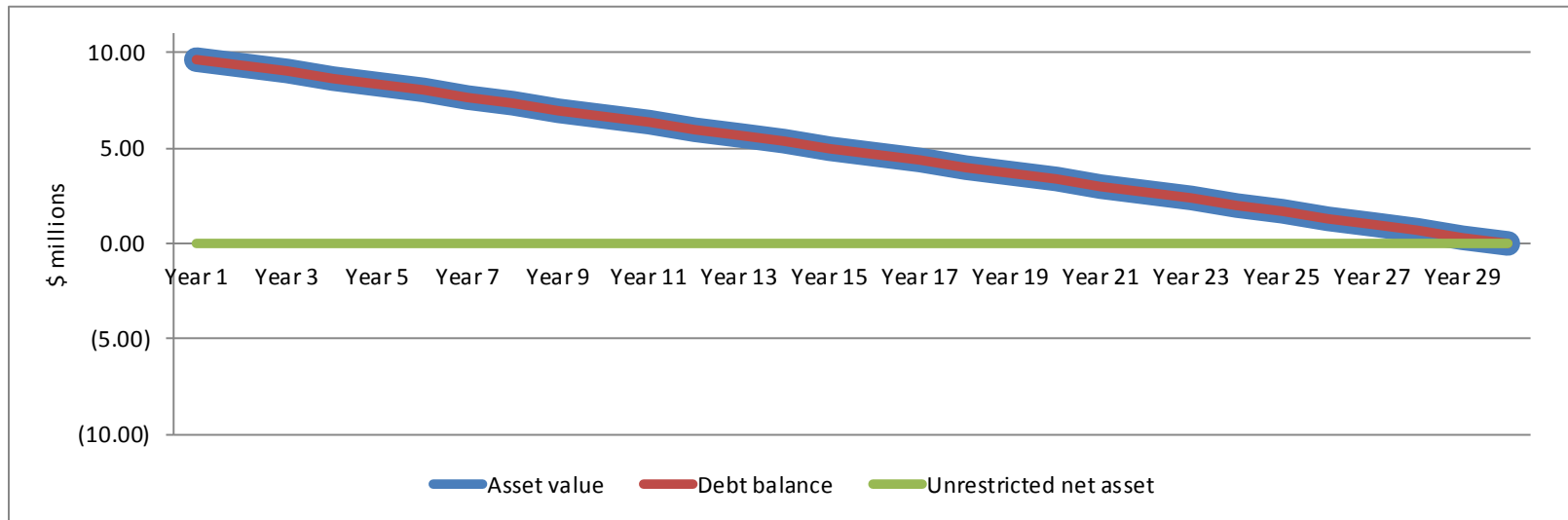
Debt and Working Capital Profile Summary (2000-2021)



- Nodal market operation - debt use focus remains on low, stable, and fair fees as increased cost of operating the more complex nodal market is accommodated.

Debt use during Nodal market operation

Straight-line matching - Paying for the asset over the useful life of the asset

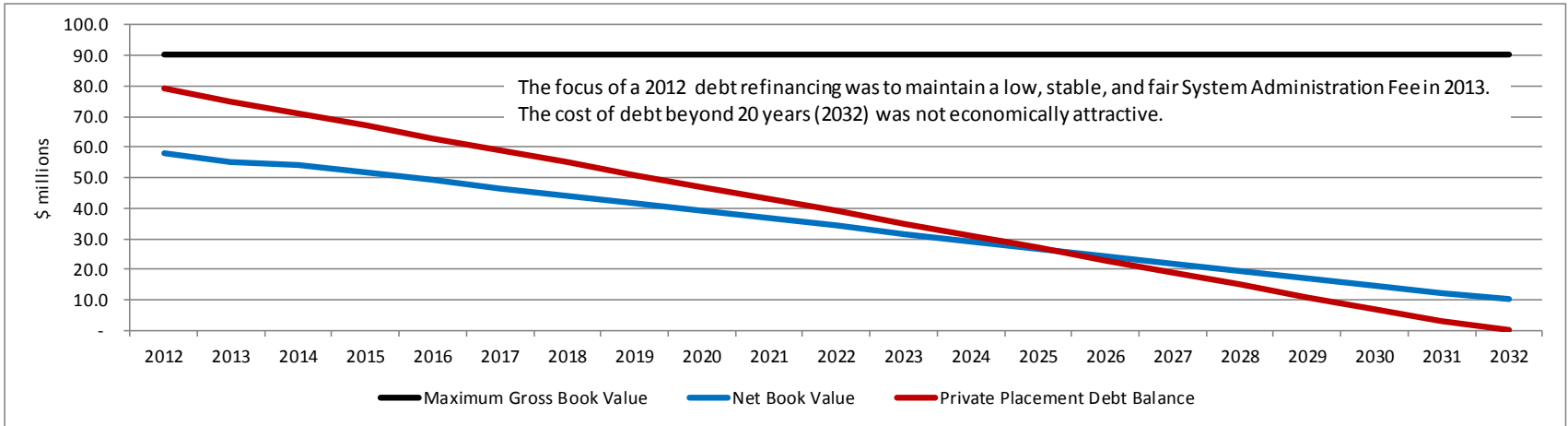


Matching concepts for a 30 year asset are the same as those for assets with a five year life; however the total incremental interest cost is higher. Over 30 years, the incremental interest cost (at 3 percent interest) on a \$10 million asset investment is approximately \$4.4 million (or \$0.001 per MWh on the System Administration Fee).

- ERCOT made significant investment in buildings concurrent with Nodal implementation.
- ERCOT incurred no long-term debt to match the long-term life of the buildings.

Debt use during Nodal market operation

2012 Debt Refinancing

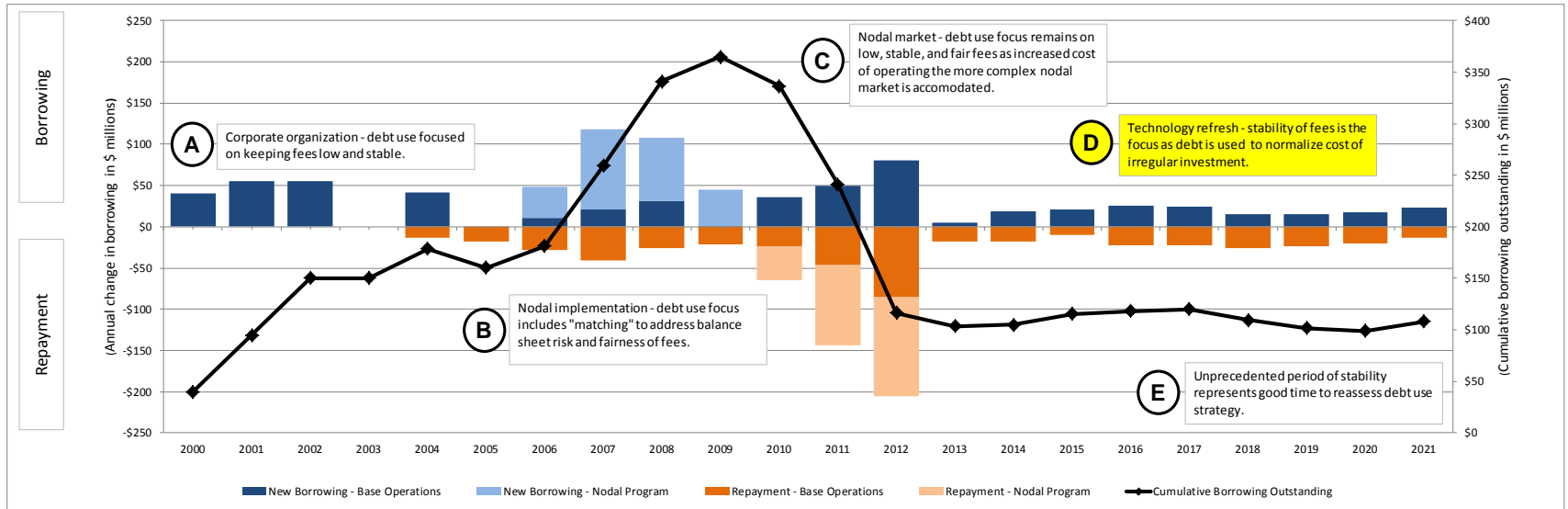


	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Maximum Gross Book Value	90.4	90.4	90.4	90.4	90.4	90.4	90.4	90.4	90.4	90.4	90.4	90.4	90.4	90.4	90.4	90.4	90.4	90.4	90.4	90.4	90.4
Net Book Value	57.9	55.1	54.3	51.7	49.2	46.6	44.1	41.6	39.1	36.6	34.2	31.8	29.3	26.9	24.4	22.0	19.6	17.1	14.7	12.3	10.3
Private Placement Debt Balance	79.0	75.0	71.0	67.0	63.0	59.0	55.0	51.0	47.0	43.0	39.0	35.0	31.0	27.0	23.0	19.0	15.0	11.0	7.0	3.0	-

- ERCOT recapitalized investment in buildings and leasehold improvements to improve liquidity and avoid a fee increase in 2013.

Debt use to normalize technology refresh costs

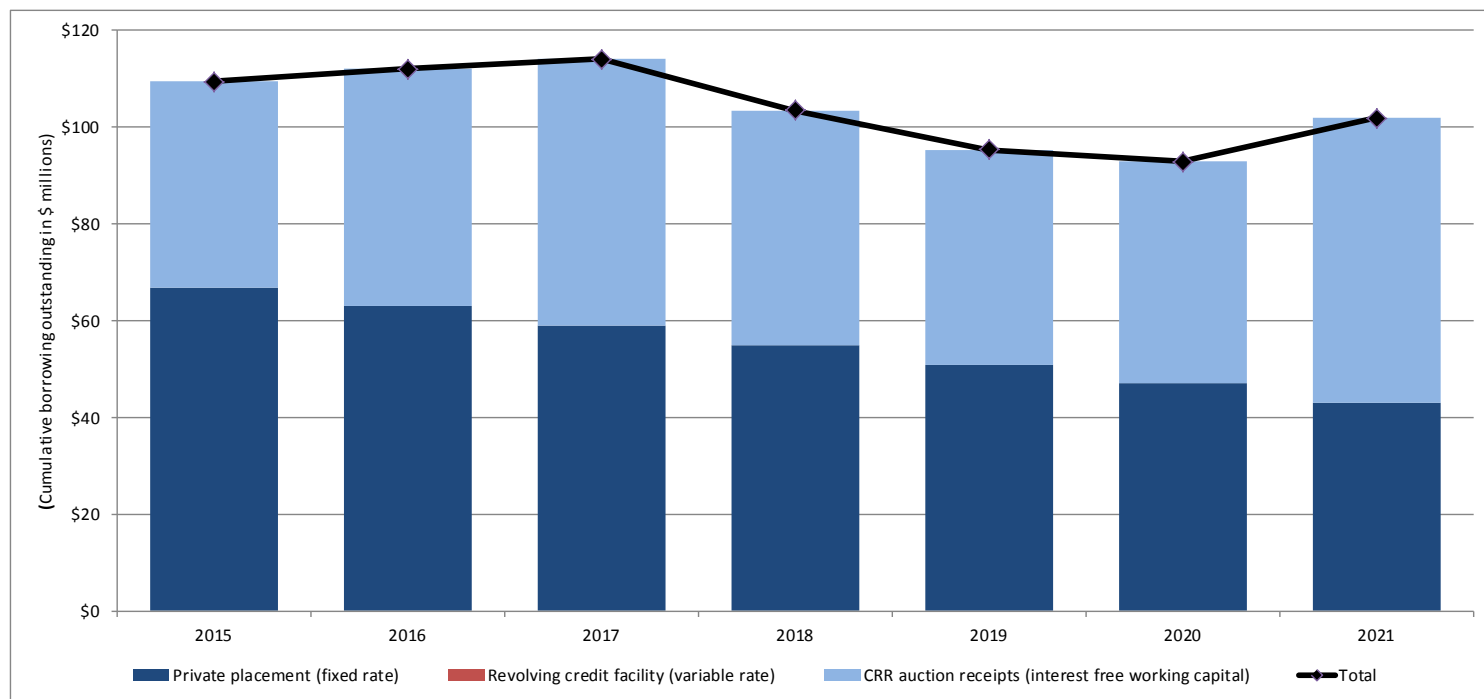
Debt and Working Capital Profile Summary (2000-2021)



- Technology refresh - stability of fees is the focus as debt is used to normalize cost of irregular investment.

Debt use to normalize technology refresh costs

Debt and Working Capital Profile Summary (2015-2021)



	2015	2016	2017	2018	2019	2020	2021
	(\$ Millions)						

Debt outstanding

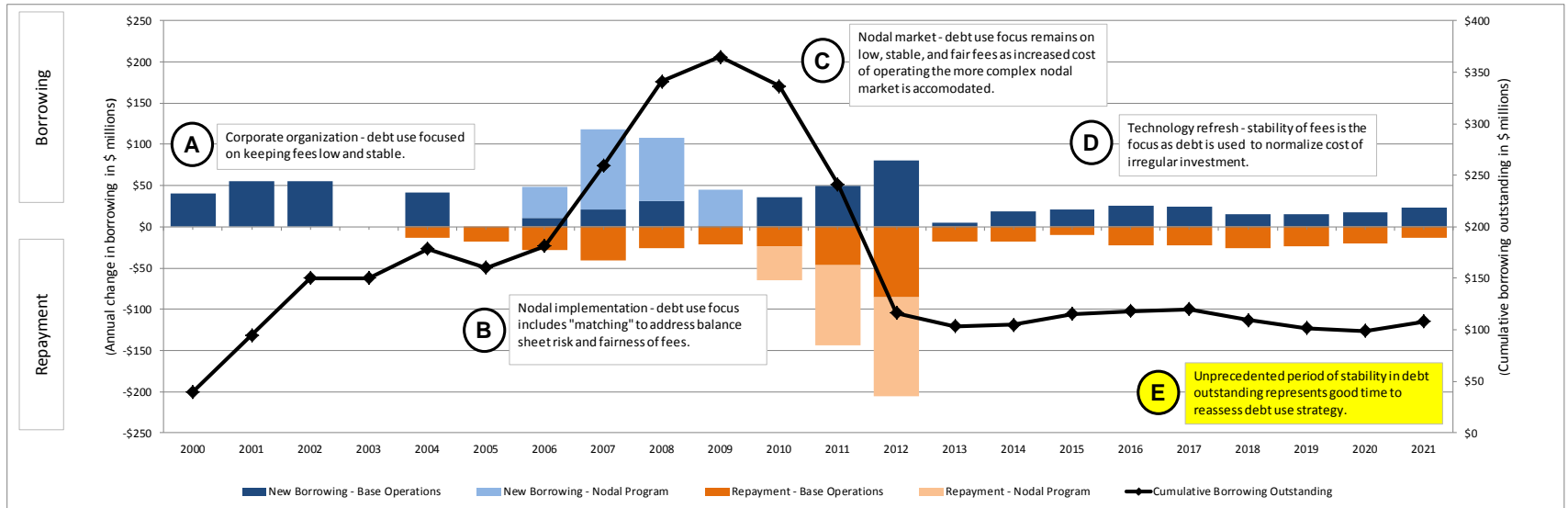
Private placement (fixed rate)	67.0	63.0	59.0	55.0	51.0	47.0	43.0
Revolving credit facility (variable rate)	-	-	-	-	-	-	-
CRR auction receipts (interest free working capital)	42.4	49.0	55.0	48.5	44.4	45.9	58.9
Total	109.4	112.0	114.0	103.5	95.4	92.9	101.9

Variable rate debt as percentage of total debt

CRR auction receipts not considered variable rate debt	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
CRR auction receipts considered variable rate debt	38.8%	43.8%	48.2%	46.9%	46.5%	49.4%	57.8%

Evaluating future debt strategy

Debt and Working Capital Profile Summary (2000-2021)



- Unprecedented period of stability in debt outstanding represents a good time to reassess debt use strategy.

Potential Future Debt Strategy

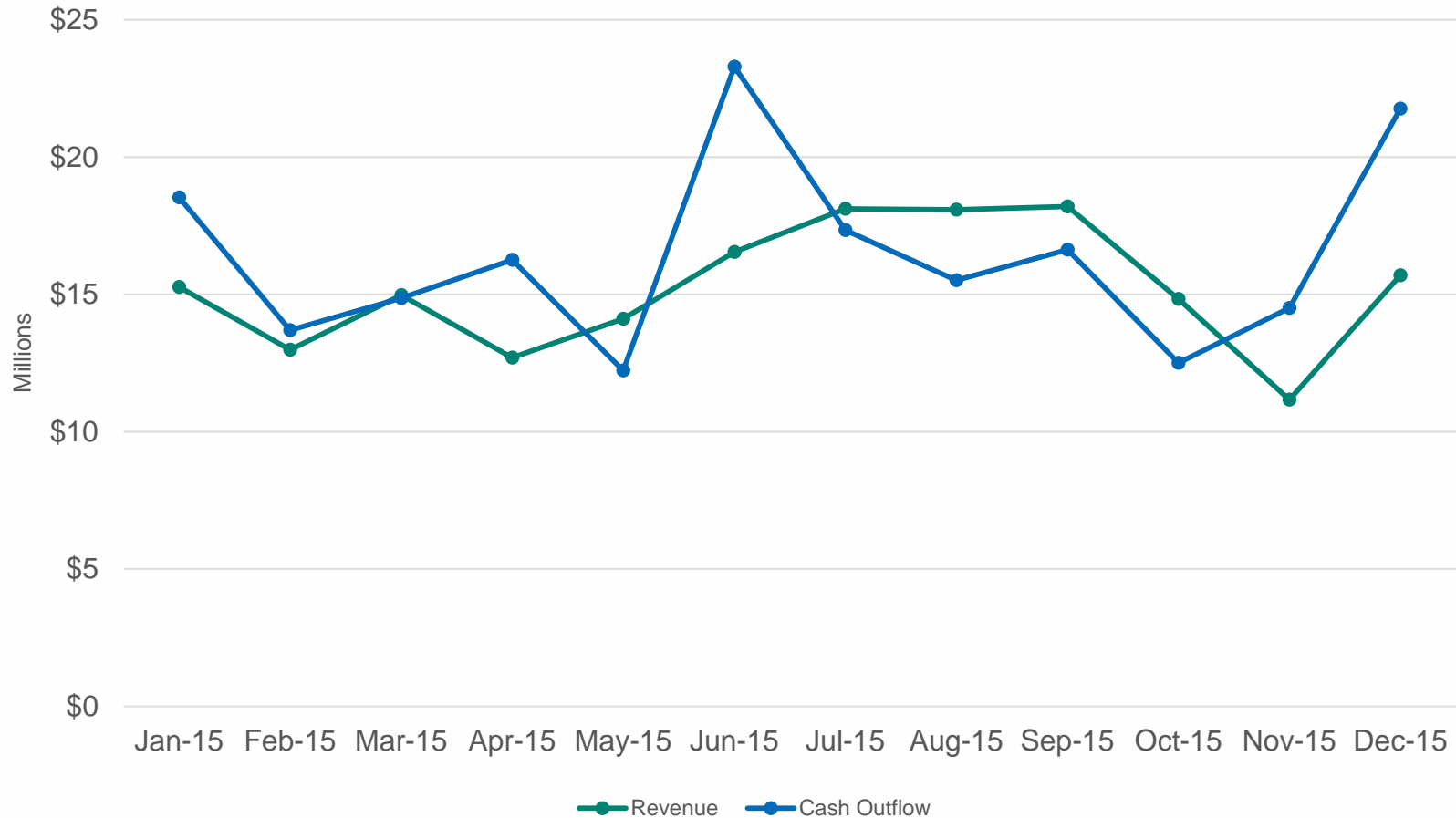
Discussion Questions

- **Should ERCOT use debt?**
- **How should ERCOT structure the debt?**
- **Should ERCOT use Congestion Revenue Rights (CRR) auction receipts?**
- **If ERCOT uses CRR auction receipts, how should possible risks be addressed?**
- **Should ERCOT use all revenue and no debt to fund requests?**

Liquidity

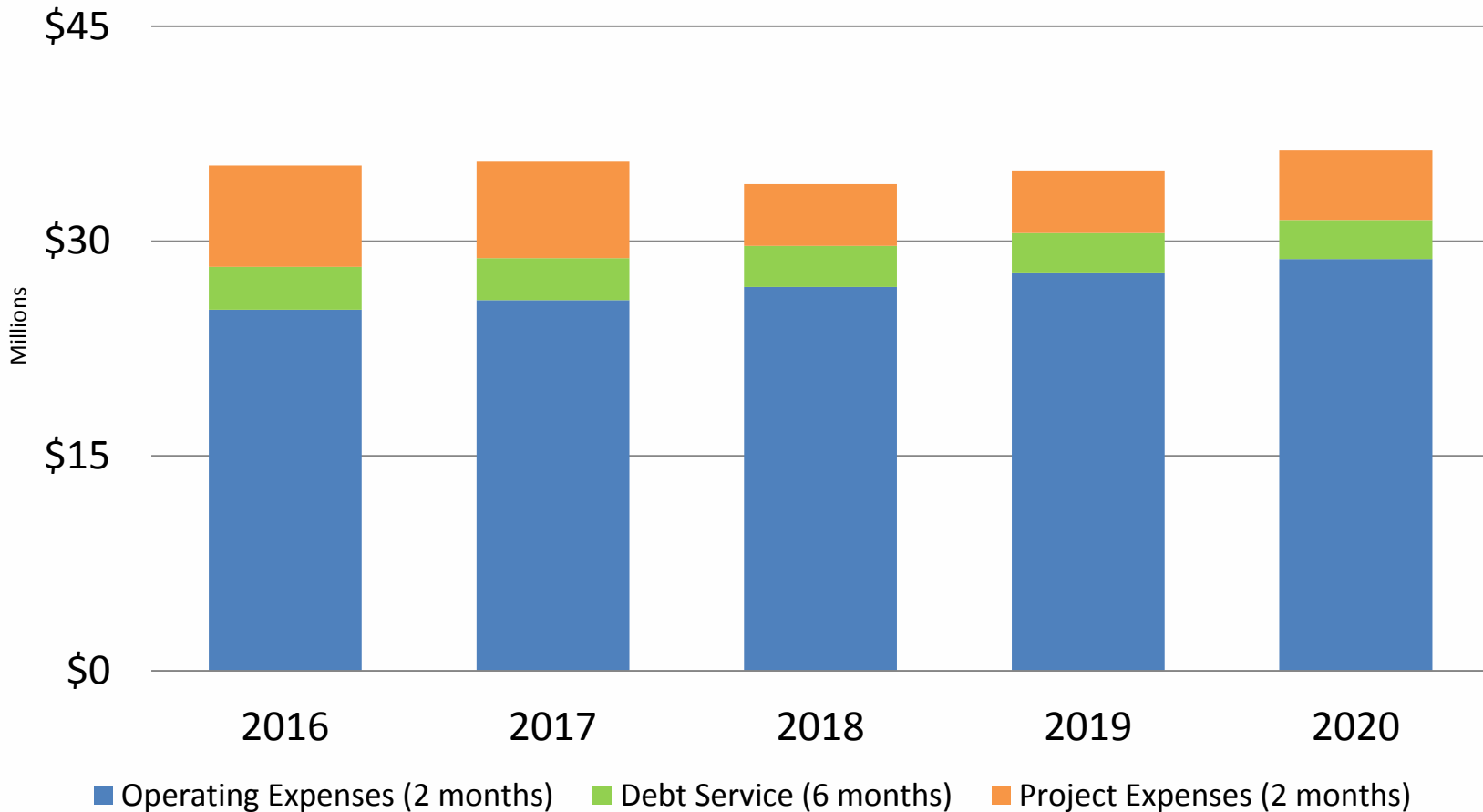
How should ERCOT fund monthly liquidity gap?

2015 Liquidity Gap (Cash Basis)



How should ERCOT fund the liquidity reserve?

Targeted Liquidity Reserve



Should debt be used for liquidity needs?

Potential Scenarios of Revolving Credit Facility Cost

Estimated Incremental Annual Interest Cost (\$ millions)

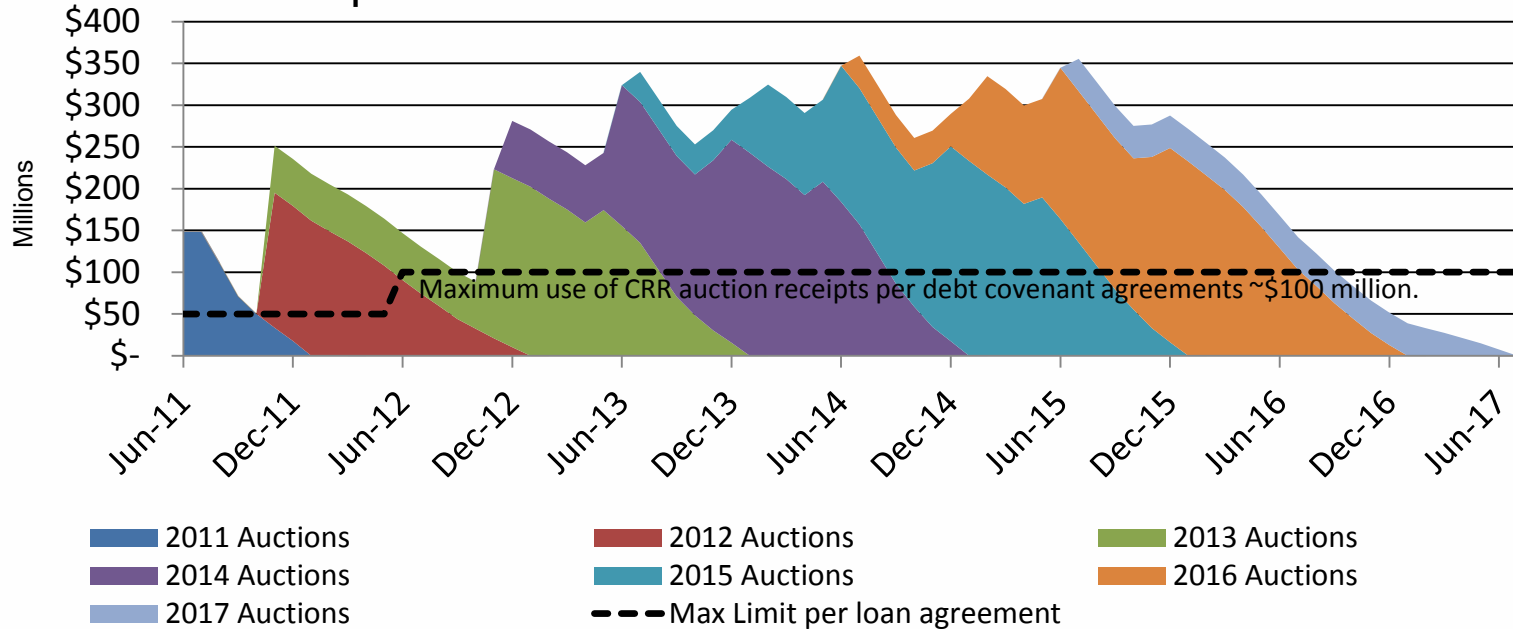
		Interest Rate of Borrowing Under a Revolving Credit Facility								
		1.0%	1.5%	2.0%	2.5%	3.0%	3.5%	4.0%	4.5%	5.0%
Amount Borrowed (\$ millions)	0	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15
	10	0.24	0.29	0.34	0.39	0.44	0.49	0.54	0.59	0.64
	20	0.33	0.43	0.53	0.63	0.73	0.83	0.93	1.03	1.13
	30	0.41	0.56	0.71	0.86	1.01	1.16	1.31	1.46	1.61
	40	0.50	0.70	0.90	1.10	1.30	1.50	1.70	1.90	2.10
	50	0.59	0.84	1.09	1.34	1.59	1.84	2.09	2.34	2.59
	60	0.68	0.98	1.28	1.58	1.88	2.18	2.48	2.78	3.08
	70	0.77	1.12	1.47	1.82	2.17	2.52	2.87	3.22	3.57

Estimated Incremental Annual Fee Impact (\$/MWh)

		Interest Rate of Borrowing Under a Revolving Credit Facility								
		1.0%	1.5%	2.0%	2.5%	3.0%	3.5%	4.0%	4.5%	5.0%
Amount Borrowed (\$ millions)	0	0.0004	0.0004	0.0004	0.0004	0.0004	0.0004	0.0004	0.0004	0.0004
	10	0.0007	0.0008	0.0010	0.0011	0.0013	0.0014	0.0015	0.0017	0.0018
	20	0.0009	0.0012	0.0015	0.0018	0.0021	0.0024	0.0026	0.0029	0.0032
	30	0.0012	0.0016	0.0020	0.0025	0.0029	0.0033	0.0038	0.0042	0.0046
	40	0.0014	0.0020	0.0026	0.0031	0.0037	0.0043	0.0049	0.0054	0.0060
	50	0.0017	0.0024	0.0031	0.0038	0.0045	0.0053	0.0060	0.0067	0.0074
	60	0.0019	0.0028	0.0037	0.0045	0.0054	0.0062	0.0071	0.0079	0.0088
	70	0.0022	0.0032	0.0042	0.0052	0.0062	0.0072	0.0082	0.0092	0.0102

Should CRR auction receipts be used for liquidity needs?

CRR Auction Receipts



CRR Auction Receipts Held by Month and Year (\$ millions)												
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2011	na	na	na	na	na	148.2	148.2	110.4	71.2	50.1	251.3	235.6
2012	217.9	205.2	193.2	179.2	164.0	146.8	130.6	115.7	100.2	88.6	223.2	281.1
2013	270.8	256.7	243.6	228.0	242.8	323.9	339.8	307.6	275.2	253.0	269.9	294.5
2014	308.8	324.6	309.6	290.5	306.6	347.2	359.2	323.8	288.1	260.7	269.4	289.6
2015	307.7	334.6	319.2	299.6	307.3	344.7	355.4	327.2	298.9	275.1	276.8	287.5
2016	271.4	254.4	237.2	216.8	193.0	167.6	142.0	122.5	101.7	83.6	66.1	51.6
2017	38.8	33.0	27.5	21.2	14.9	7.5	0.0	0.0	0.0	0.0	0.0	0.0

Should revenue be used for liquidity needs?

Estimated Duration of Various Fee Increases Needed to Accumulate a Cash Reserve

		Amount of the Incremental Fee (\$ / MWh)										
		0.0500	0.1000	0.1500	0.2000	0.2500	0.3000	0.3500	0.3520	0.4000	0.4500	0.5000
Years of the Incremental Fee	1.0	17.8	35.5	53.3	71.1	88.8	106.6	124.3	125.0	142.1	159.9	177.6
	2.0	36.1	72.1	108.2	144.2	180.3	216.3	252.4	253.8	288.5	324.5	360.6
	3.0	54.9	109.8	164.7	219.6	274.5	329.4	384.3	386.5	439.2	494.1	549.0
	4.0	74.3	148.6	222.9	297.2	371.5	445.8	520.1	523.0	594.4	668.7	743.0
	5.0	94.3	188.5	282.8	377.0	471.3	565.6	659.8	663.6	754.1	848.4	942.6
	6.0	114.8	229.6	344.4	459.2	574.1	688.9	803.7	808.3	918.5	1,033.3	1,148.1
	6.5	125.0	250.0	375.0	500.0	625.0	749.9	874.9	879.9	999.9	1,124.9	1,249.9
	7.0	136.0	271.9	407.9	543.8	679.8	815.7	951.7	957.1	1,087.6	1,223.6	1,359.6
	8.0	157.7	315.4	473.1	630.8	788.5	946.3	1,104.0	1,110.3	1,261.7	1,419.4	1,577.1
	9.0	180.1	360.2	540.3	720.3	900.4	1,080.5	1,260.6	1,267.8	1,440.7	1,620.8	1,800.8

Liquidity needs

\$12 MM Gap Funding	Debt Funded	CRR Funded	Revenue Funded
Interest Cost	\$32,813	\$0	\$0
Fee Impact	\$.00009	\$0	\$.0400

\$125 MM Reserve Funding	Debt Funded	CRR Funded	Revenue Funded
Interest Cost	\$150,000	\$0	\$0
Fee Impact	\$.0004	\$0	\$.3520

Liquidity Funding Advantages/Disadvantages

	Advantages	Disadvantages
Debt Funded	<ul style="list-style-type: none">• Smooth Fee	<ul style="list-style-type: none">• Interest Cost
CRR Funded	<ul style="list-style-type: none">• Interest Cost• Smooth Fee	<ul style="list-style-type: none">• Administrative Burden
Revenue Funded	<ul style="list-style-type: none">• Interest Cost	<ul style="list-style-type: none">• Smooth Fee• Administrative Burden

- Absent the need for additional debt, ERCOT staff recommends maximizing CRR auction receipts to fund liquidity needs while utilizing the revolver to cover any possible CRR auction changes.

3-5 Year Project Funding

3-5 Year Projects

Assumptions:

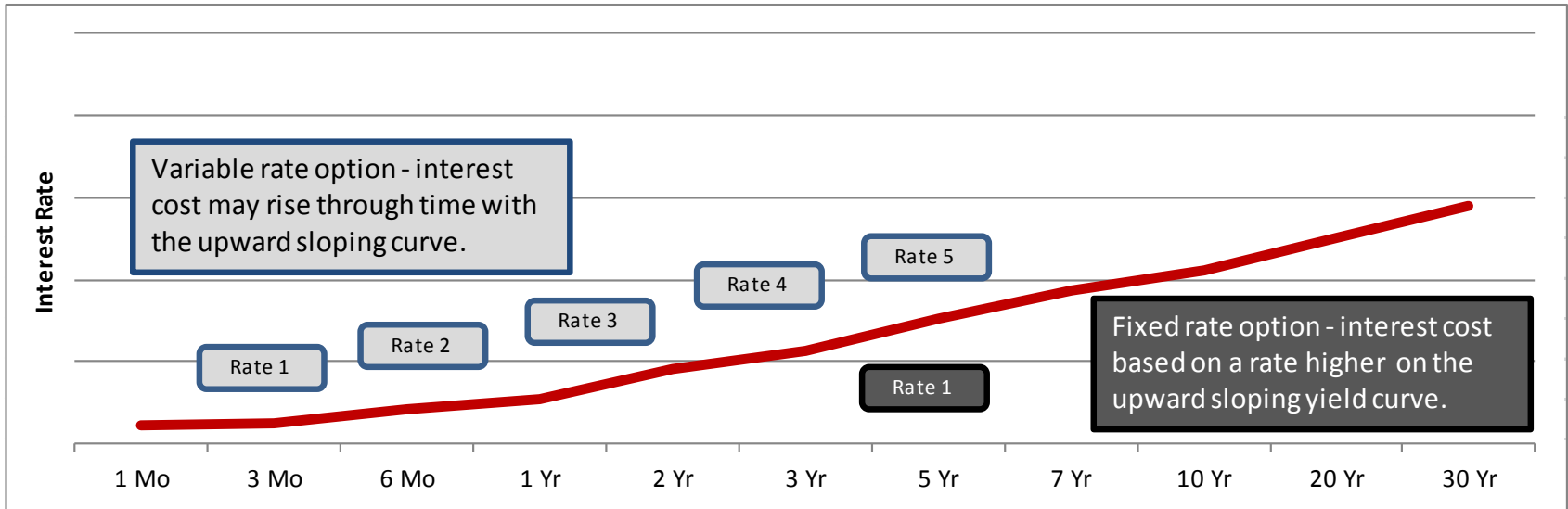
- \$42,500,000 Request
- 2.5% Interest Rate
- Debt termed over 4 years

	Debt Funded	CRR Funded	Revenue Funded
Repayment	\$42,500,000	\$42,500,000	\$42,500,000
Interest Cost	\$2,656,250	\$0	\$0
Fee Impact (Year 1)	\$.0334	\$.0304	\$.1216
Fee Impact (4 yr. avg)	\$.0323	\$.0304	\$.0304

	Debt Funded	CRR Funded	Revenue Funded
Interest cost fee impact (4 yr. avg)	\$.0019	\$0	\$0

Variable rate debt or fixed rate debt?

Typical Upward Sloping Yield Curve



- Fixed rate option will typically carry higher initial interest cost.
- Variable rate option introduces risk that interest rates rise more steeply than markets expect – as reflected in the shape of the yield curve.

Variable rate debt or fixed rate debt?

Fixed rate option - Fund investment with fixed rate, five-year term debt

	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Investment	10.0					
Principal repayment cost	4.0	1.5	1.5	1.5	1.5	10.0
Average debt outstanding	3.0	5.3	3.8	2.3	0.8	
Annual interest rate	5.0%	5.0%	5.0%	5.0%	5.0%	
Annual interest cost	0.15	0.26	0.19	0.11	0.04	0.8
Total cost - principal and interest	4.15	1.76	1.69	1.61	1.54	10.8
Incremental fee - principal cost	\$ 0.0114	\$ 0.0042	\$ 0.0041	\$ 0.0041	\$ 0.0040	
Incremental fee - interest cost	\$ 0.0004	\$ 0.0007	\$ 0.0005	\$ 0.0003	\$ 0.0001	
Incremental fee - principal and interest	\$ 0.0119	\$ 0.0050	\$ 0.0047	\$ 0.0044	\$ 0.0041	

Variable rate option - Fund investment with variable rate borrowing (e.g. revolving credit facility)

	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Investment	10.0					
Principal repayment cost	4.0	1.5	1.5	1.5	1.5	10.0
Average debt outstanding	3.0	5.3	3.8	2.3	0.8	
Annual interest rate	2.0%	2.5%	3.0%	4.0%	5.0%	
Annual interest cost	0.06	0.13	0.11	0.09	0.04	0.4
Total cost - principal and interest	4.06	1.63	1.61	1.59	1.54	10.4
Incremental fee - principal cost	\$ 0.0114	\$ 0.0042	\$ 0.0041	\$ 0.0041	\$ 0.0040	
Incremental fee - interest cost	\$ 0.0002	\$ 0.0004	\$ 0.0003	\$ 0.0002	\$ 0.0001	
Incremental fee - principal and interest	\$ 0.0116	\$ 0.0046	\$ 0.0045	\$ 0.0043	\$ 0.0041	

Variable rate debt or fixed rate debt?

CRR auction receipts option - Fund investment with no interest cost CRR auction receipts.

	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Investment	10.0					
Principal repayment cost	4.0	1.5	1.5	1.5	1.5	10.0
Average debt outstanding	3.0	5.3	3.8	2.3	0.8	
Annual interest rate	0.0%	0.0%	0.0%	0.0%	0.0%	
Annual interest cost	-	-	-	-	-	-
Total cost - principal and interest	4.00	1.50	1.50	1.50	1.50	10.0
Incremental fee - principal cost	\$ 0.0114	\$ 0.0042	\$ 0.0041	\$ 0.0041	\$ 0.0040	
Incremental fee - interest cost	\$ -	\$ -	\$ -	\$ -	\$ -	
Incremental fee - principal and interest	\$ 0.0114	\$ 0.0042	\$ 0.0041	\$ 0.0041	\$ 0.0040	

- Is variable interest rate risk over 3-5 years worth the extra interest cost and higher fee requirement?

3-5 Year Project Funding Advantages/Disadvantages

	Advantages	Disadvantages
Debt Funded	<ul style="list-style-type: none"> • Intergenerational Equity • Smooth Fee • Maturity Matching 	<ul style="list-style-type: none"> • Interest Cost
CRR Funded	<ul style="list-style-type: none"> • Interest Cost • Intergenerational Equity • Smooth Fee • Maturity Matching 	<ul style="list-style-type: none"> • Administrative Burden
Revenue Funded	<ul style="list-style-type: none"> • Interest Cost 	<ul style="list-style-type: none"> • Intergenerational Equity • Smooth Fee • Maturity Matching

- Absent the need for additional debt, ERCOT staff recommends maximizing CRR auction receipts to fund liquidity needs while utilizing the revolver to cover any possible CRR auction changes.

Significant Unbudgeted Initiatives

Significant Unbudgeted Initiatives

Assumptions:

- \$20,000,000 Request
- 2.5% Interest Rate
- Debt termed over 4 years

	Debt Funded	CRR Funded	Revenue Funded
Repayment	\$20,000,000	\$20,000,000	\$20,000,000
Interest Cost	\$1,250,000	\$0	\$0
Fee Impact (Year 1)	\$.0157	\$.0143	\$.0572
Fee Impact (4 yr. avg)	\$.0152	\$.0143	\$.0143

	Debt Funded	CRR Funded	Revenue Funded
Interest cost fee impact (4 yr. avg)	\$.0009	\$0	\$0

Significant Unbudgeted Initiatives Funding Advantages/Disadvantages

	Advantages	Disadvantages
Debt Funded	<ul style="list-style-type: none">• Intergenerational Equity• Smooth Fee• Maturity Matching	<ul style="list-style-type: none">• Interest Cost
CRR Funded	<ul style="list-style-type: none">• Interest Cost• Intergenerational Equity• Smooth Fee• Maturity Matching	<ul style="list-style-type: none">• Administrative Burden
Revenue Funded	<ul style="list-style-type: none">• Interest Cost	<ul style="list-style-type: none">• Intergenerational Equity• Smooth Fee• Maturity Matching

- ERCOT staff recommends funding of significant unbudgeted initiatives to be addressed at the time of initiation.

Credit Rating

Moody's Investment Grade Credit Rating

Rating	Long Term Rating	Possible Margin Change	Interest Cost	Fee Impact
Aaa	Rated as the highest quality and lowest credit risk.	4.0%	\$6,300,000	\$.00090
Aa1		4.0%	\$6,300,000	\$.00090
Aa2	Rated as high quality and very low credit risk.			
Aa3				
A1				
A2	Rated as upper-medium grade and low credit risk.	4.10%	\$6,457,500	\$.00092
A3		4.20%	\$6,615,000	\$.00095
		4.30%	\$6,772,500	\$.00097
Baa1	Rated as medium grade, with some speculative elements and moderate credit risk	4.40%	\$6,930,000	\$.00099
Baa2		4.50%	\$7,087,500	\$.00101
Baa3				

Assumption:

- \$15,000,000 request amortized over 20 years

Actions to change rating

Raise Rating	Lower Rating
<ul style="list-style-type: none">• Reduce leverage	<ul style="list-style-type: none">• Increase leverage
<ul style="list-style-type: none">• Variable fee	<ul style="list-style-type: none">• Constrained liquidity
	<ul style="list-style-type: none">• Rate approval changes and does not allow management to sufficiently recover expenses and debt

Appendices

APPENDIX A
AMENDED AND RESTATED BYLAWS



AMENDED AND RESTATED BYLAWS

OF

ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.

(A Texas Non-Stock, Non-Profit Corporation)

Approved on August 17, 2015

ARTICLE 1 OFFICES

Section 1.1 Principal Office. The principal office of Electric Reliability Council of Texas, Inc., a Texas non-stock, non-profit corporation (“ERCOT”), shall be located at such place in Texas as the ERCOT Board of Directors (the “Board”) may determine. Additional offices may be established and maintained at such place or places as the Board may from time to time designate.

Section 1.2 Registered Office and Registered Agent. ERCOT will maintain a registered office and a registered agent in Texas. The Board may change the registered office and the registered agent as permitted in the Texas Non-Profit Corporation Act.

ARTICLE 2 DEFINITIONS

For purposes of these Bylaws, the following definitions apply:

1. **Affiliate.** This includes an entity (e.g. a person or any type of organization) in any of the following relationships: (i) an entity that directly or indirectly owns or holds at least five percent of the voting securities of another entity, (ii) an entity in a chain of successive ownership of at least five percent of the voting securities of another entity, (iii) an entity which shares a common parent with or is under common influence or control with another entity or (iv) an entity that actually exercises substantial influence or control over the policies and actions of another entity. Evidence of influence or control shall include the possession, directly or indirectly, of the power to direct or cause the direction of the management and/or policies and procedures of another, whether that power is established through ownership or voting of at least five percent of the voting securities or by any other direct or indirect means. In the case of (i) or (ii) above, where one entity owns or holds at least five percent, but less than 20 percent, of the voting securities of another entity, and the relationships in (iii) and (iv) do not exist, the Board shall have the discretion to determine whether or not the entities are Affiliates of one another for the purpose of determining Member Segment and voting rights. Similarly, in cases where the level of control or influence is disputed, the Board shall have discretion to determine whether or not the entities are Affiliates of one another. Membership in ERCOT shall not create an affiliation with ERCOT.
2. **Consumers.** Any entity meeting the definition for Residential Consumers, Commercial Consumers or Industrial Consumers as set forth in this Article.
3. **Commercial Consumers.** A commercial consumer in the ERCOT Region: (a) **Small Commercial Consumer** – A commercial consumer having a peak demand of 1000 kilowatts or less (or an organization representing such consumers); (b) **Large Commercial Consumer** – A commercial consumer having a peak demand of greater than 1000 kilowatts. An entity applying for ERCOT membership as either a Small Commercial Consumer or a Large Commercial Consumer is ineligible if that entity has

interests in the electric industry in any other capacity than as an end-use consumer or represents the interests of another entity that has interests in the electric industry in any other capacity than as an end-use consumer, such as but not limited to, aggregators, power marketers, retail electric providers, transmission or distribution companies, cooperatives, municipals, or generators and the interest is of such an extent or nature that its decisions might be affected or determined by it. The three Consumer Directors have the right to determine by majority vote of the Consumer Directors whether any applicant or member is ineligible, as described above, to become or remain a member of the Consumer Segment.

4. **Cooperative.** An entity operating in the ERCOT Region that is:
 - a. a corporation organized under Chapter 161 of the Texas Utilities Code or a predecessor statute to Chapter 161 and operating under that chapter;
 - b. a corporation organized as an electric cooperative in a state other than Texas that has obtained a certificate of authority to conduct affairs in the State of Texas;
 - c. a cooperative association organized under Tex. Rev. Civ. Stat. 1396-50.01 or a predecessor to that statute and operating under that statute; or
 - d. a River Authority as defined in Tex. Water Code §30.003.
5. **Director.** A member of the Board of ERCOT.
6. **Eligible Voting Director.** A Seated Director of the Board of ERCOT other than the *ex officio* Director who is the Chairman of the Public Utility Commission of Texas (“PUCT”), pursuant to these Bylaws, who votes in person or by proxy at a meeting properly noticed and held pursuant to these Bylaws.
7. **Eligible Voting Representative.** A Seated Representative, pursuant to these Bylaws, who votes in person or by proxy at a meeting properly noticed and held pursuant to these Bylaws.
8. **Entity.** An Entity includes an organization and all of its Affiliates.
9. **ERCOT Protocols.** The document adopted by ERCOT and approved by the Public Utility Commission of Texas, as amended from time to time that contains the scheduling, operating, planning, reliability, and settlement policies, rules, guidelines, procedures, standards, and criteria of ERCOT.
10. **ERCOT Region.** The geographic area and associated transmission and distribution facilities that are not synchronously interconnected with electric utilities operating outside the jurisdiction of the Public Utility Commission of Texas.

11. **Independent Generator.** Any entity that is not a Transmission and Distribution (“T&D”) Entity or Affiliate of a T&D Entity and that (i) owns or controls generation capable of operating at least 10 MW in the ERCOT Region, or (ii) is preparing to operate and control generation of at least 10 MW, in the ERCOT Region, and has approval of the appropriate governmental authority, has any necessary real property rights, has given the connecting transmission provider written authorization to proceed with construction and has provided security to the connecting transmission provider.
12. **Independent Power Marketer.** Any entity that is not a T&D Entity or Affiliate of a T&D Entity and is registered at the PUCT as a Power Marketer to serve in the ERCOT Region.
13. **Independent REP.** Any entity that is certified by the PUCT to serve in the ERCOT Region as a Retail Electric Provider (“REP”) under Public Utility Regulatory Act (“PURA”) §39.352 and that is not an Affiliate of a T&D Entity. For the purposes of Segment classification, an aggregator, if such Member does not fit in any other classification, shall participate as an Independent REP.
14. **Industrial Consumers.** An industrial consumer is a consumer with at least one meter with average monthly demand greater than 1 megawatt consumed within the ERCOT Region engaged in an industrial process.
15. **Investor-Owned Utility (“IOU”).**
 - a. An investor-held, for-profit “electric utility” as defined in PURA §31.002(6) that (a) operates within the ERCOT Region, (b) owns 345 KV interconnected transmission facilities in the ERCOT Region, (c) owns more than 500 pole miles of transmission facilities in the ERCOT Region, or (d) is an Affiliate of an entity described in (a), (b) or (c);
 - b. A public utility holding company of any such electric utility.
16. **Market Participant.** For purposes of these Bylaws, a Market Participant is (i) any entity that engages in any activity that is in whole or in part the subject of the ERCOT Protocols and has, or should have, a contract regarding such activities with ERCOT or (ii) any entity that qualifies for ERCOT membership.
17. **Market Segment.** For purposes of these Bylaws, any of the segments (all of which are defined within this Article 2 of these Bylaws) as follows:
 - a. Cooperative;
 - b. Independent Generator;
 - c. Independent Power Marketer;
 - d. Independent REP;
 - e. IOU;

- f. Municipal; or
 - g. Consumer (including: (1) Commercial Consumer comprised of Small Commercial Consumer and Large Commercial Consumer, (2) Industrial Consumer or (3) Residential Consumer).
18. **Market Segment Director.** A Director who has been elected by one of the Market Segments.
19. **Member.** A member of ERCOT, the Texas non-stock, non-profit corporation, which has been approved by ERCOT to meet the applicable membership qualifications described in Sections 3.1 and 3.2 of these Bylaws, or the member's appointed representative, as the context so requires.
20. **Municipal.** An entity operating in the ERCOT Region that owns or controls transmission or distribution facilities, owns or controls dispatchable generating facilities, or provides retail electric service and is either:
- a. a municipal owned utility as defined in PURA §11.003 or
 - b. a River Authority as defined in Tex. Water Code §30.003.
21. **PUCT.** The Public Utility Commission of Texas, which is the Texas state agency that has responsibility and oversight of the activities conducted by ERCOT.
22. **Residential Consumers.** The appointed Board Director representing residential consumer interests, an organization or agency representing the interests of residential consumers in the ERCOT Region, or the Residential Consumer Technical Advisory Committee ("TAC") Representative. An entity applying for ERCOT membership as a Residential Consumer is ineligible if that entity has interests in the electric industry in any other capacity than as an end-use consumer or represents the interests of another entity that has interests in the electric industry in any other capacity than as an end-use consumer, such as but not limited to, aggregators, power marketers, retail electric providers, transmission or distribution companies, cooperatives, municipals, or generators. The three Consumer Directors have the right to determine by majority vote of the Consumer Directors whether any applicant or member is ineligible, as described above, to become or remain a member of the Consumer Segment.
23. **Seated Director.** A Director, or their designated Segment Alternate when serving in their stead (if applicable), who is currently serving, having been selected in accordance with these Bylaws, regardless of attendance at meetings. A vacant position shall not be considered a "Seated Director".
24. **Seated Representative.** A TAC Representative (as defined in Section 5.1 of these Bylaws) or a member of a subcommittee of TAC, or their designated alternate representatives when serving in their stead (if applicable), who is currently serving,

having been selected in accordance with these Bylaws, regardless of attendance at meetings. A vacant position shall not be considered a “Seated Representative”.

25. **Segment.** For purposes of these Bylaws, a “Segment” refers to a Market Segment as defined in this Article 2 of these Bylaws.
26. **Segment Alternate.** A designated alternate Board representative, duly elected by his respective Market Segment, who can attend and vote at meetings in the absence of the respective Market Segment Director (including while such Director is unable to attend a Board meeting or while such Director’s seat is vacant). Each Segment Alternate must meet all qualifications of a Director and shall receive all Board materials.
27. **Transmission and Distribution Entity.** Any entity that is an IOU, Cooperative or Municipal that owns or controls transmission and/or distribution facilities including at least 200 pole miles of such facilities in the ERCOT Region or any entity that is a “retail electric utility,” as defined in PURA §37.001, operating in the ERCOT Region.
28. **Unaffiliated Director.** A Director who is unaffiliated with a Market Participant and who meets the requirements identified in Section 4.3(b).

ARTICLE 3 MEMBERS

Section 3.1 Membership.

- (a) Members must qualify in one of the following segments as defined in Article 2:
 - (1) Cooperative;
 - (2) Independent Generator;
 - (3) Independent Power Marketer;
 - (4) Independent REP;
 - (5) Investor-Owned Utility;
 - (6) Municipal; or,
 - (7) Consumer in one of three subsegments: (i) Commercial (which is further divided into Large and Small Commercial Consumer); (ii) Industrial; and (iii) Residential.
- (b) Except for the Consumer Segment, Members must have an actual financial interest in the retail or wholesale electric market in the ERCOT Region and be able to do business in

one of these markets. A Member must maintain its registration or certification by the PUCT to the extent it is required to do so by statute or PUCT rule.

- (c) The Board may adopt and amend Member application procedures.

Section 3.2 Membership Types and Voting Rights. ERCOT Members may be Corporate Members, Associate Members, or Adjunct Members as hereinafter described:

- (a) Corporate Members – shall have the rights and obligations as described in these Bylaws including the right to vote on all matters submitted to the general membership (such as election of Directors, election of TAC Representatives and amendments to the Articles of Incorporation and these Bylaws).
- (b) Associate Members – shall have the rights and obligations as described in these Bylaws excluding the right to vote on any matter submitted to the general Membership (such as election of Directors, election of TAC Representatives and amendments to the Articles of Incorporation and these Bylaws).
- (c) Adjunct Members – may be approved for Adjunct Membership by the Board if such entity does not meet the definitions and requirements to join as a Corporate or Associate Member. Adjunct Members shall have no right to vote on any matter submitted to the general Membership nor any right to be elected or appointed to the ERCOT Board, TAC or any subcommittee of the Board or TAC. Adjunct Members shall be bound by the same obligations as other Members of ERCOT.

Section 3.3 Obligations of All Members.

- (a) Each Member must comply with any applicable planning and operating criteria, procedures and guides adopted by or under the direction of the Board to maintain electric system reliability, coordinate planning, promote comparable access to the transmission system by all users and to further the exempt purposes of ERCOT.
- (b) Consistent with applicable laws and regulations, Members must share information at ERCOT's request as necessary for the furtherance of the exempt purposes or activities of ERCOT and consistent with PUCT rules relating to confidentiality.

Section 3.4 Annual Member Dues. Each Member annually shall pay dues to ERCOT (the "Annual Member Dues"). Each Member shall pay its Annual Member Dues within thirty (30) days after receipt of ERCOT's annual statement of such dues. Failure to do so shall constitute such Member as being in arrears. Except as provided below, Annual Member Dues for Corporate Members shall be \$2,000. Annual Member Dues for Associate Members shall be \$500. Annual Member Dues for Adjunct Members shall be \$500. The Annual Member Dues for Residential and Commercial Consumer Members shall be \$100 for Corporate Membership and \$50 for Associate Membership. Office of Public Utility Counsel ("OPUC") and the appointed Residential Consumer TAC Representative(s) shall be eligible to be Corporate Members without

the payment of Annual Member Dues. Any Member may request that the Member's Annual Member Dues be waived by the Board of Directors for good cause shown.

Section 3.5 Representation. Each Member shall appoint a representative to receive notices from ERCOT and shall give to the ERCOT Chief Executive Officer ("CEO") or his designee in writing (signed by a duly authorized representative of the Member) the name of the person thus appointed. For Corporate Members, such appointed representative shall also act on behalf of the Corporate Member at all meetings of the Corporate Members.

Section 3.6 Participation.

- (a) No Entity shall simultaneously hold more than one Corporate Membership. Any Entity may also simultaneously have a maximum of one seat on each of the following: the Board and TAC.
- (b) Except for Adjunct Members, Members must qualify for Membership in a Segment. Entities may join ERCOT in any Segment in which they qualify for Membership provided that an Entity may join as a Corporate Member in only one Segment. In the event that an Entity qualifies for more than one Segment, such Entity may join such other Segments as an Associate Member upon payment of the Associate Annual Member Dues for each Segment in which such Entity desires to participate as an Associate Member. Once an Entity has applied to be and has been approved by ERCOT to meet the minimum qualifications as a Corporate Member of a Segment, the Entity must continue to vote in that Segment for a minimum of one (1) year. If, at any point during the membership year, an Entity no longer meets the qualifications for the Segment for which it was originally approved by ERCOT, the Entity may not vote in that Segment; however, that Entity may then immediately elect to become a Corporate Member in any Segment for which it does qualify. Except as otherwise provided in these Bylaws, an Associate Member may be selected by the Corporate Members of a Segment in which the Associate Member participates to serve as a voting member of the Board, TAC or any subcommittee of the Board or TAC.
- (c) Subject to any specific provisions in these Bylaws or the Articles of Incorporation, each Corporate Member in good standing is entitled to one vote on each matter submitted to a vote of the Corporate Members. A Corporate Member in good standing is one that is not in arrears for payment of its Annual Member Dues for a Corporate Membership or payment of any other fees owed to ERCOT unless in good faith disputed, is not in breach of any contract with ERCOT, and is not suspended or expelled as a Corporate Member as of the record date of the meeting. Corporate Members that are not in good standing are not entitled to vote on any matters unless and until they have regained good standing.

Section 3.7 Meetings of the Corporate Members.

- (a) Corporate Members shall meet at least annually on a date and at a place to be established by the Board ("Annual Meeting"). Except for appointed Directors, the representatives of

the Corporate Members shall confirm the members of the Board at the Annual Meeting, and conduct such other business as may be properly brought before them.

- (b) Special meetings of the Corporate Members may be called by the Board.
- (c) Written or printed notice of any meeting of the Corporate Members shall be delivered to each Member at least three weeks prior to the date of the meeting. Notice to Members of such meetings shall be by mail, facsimile, or email. Notice shall include an agenda explaining the purpose of the meeting and any business upon which the Corporate Members will be requested to vote.
- (d) The record date for determining Corporate Members entitled to notice shall be on the Friday which is at least thirty days but not more than thirty-six days prior to the meeting date.
- (e) Representation at any meeting of ERCOT of at least fifty-one percent (51%) of the Corporate Members, in person or by proxy, shall constitute a quorum for the transaction of business at such meeting; and abstentions do not affect calculation of a quorum. Except as otherwise provided in these Bylaws, an act of fifty-one percent (51%) of the Corporate Members shall be the act of the Corporate Members. For purposes of voting of the Corporate Members, Corporate Members who abstain from voting shall not have their votes included in the total number of votes from which the requisite percentage of affirmative votes is required for action.
- (f) Written proxies may be used for meetings of the Corporate Members in accordance with any relevant provisions in these Bylaws and the Texas Non Profit Corporation Act. For any meeting of the Corporate Members, proxies shall count towards a quorum.
- (g) Unless otherwise provided by law, any action required or permitted to be taken at any meeting of the Corporate Members may be taken without a meeting, if a consent in writing, setting forth the action to be taken, is signed by a sufficient number of Corporate Members as would be necessary to take that action at a meeting at which all of the Corporate Members were present and voted. Corporate Members may participate in and hold a meeting by means of a conference telephone or other similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting pursuant to this Section shall constitute presence in person at such meeting, except where a person participates in the meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened. Where action is taken without a meeting, notice of the proposed action shall be provided to Corporate Members in accordance with Section 3.7(c).

Section 3.8 Sanction, Suspension, Expulsion, or Termination of Members. No Member, either a Member organization or a Member representative, may be sanctioned, expelled or suspended, and no Membership or Memberships in ERCOT may be terminated or suspended except

pursuant to the following procedure, which is intended to be fair and reasonable and carried out in good faith, absent a Board resolution providing an alternative procedure:

- (a) Written notice. An intent to terminate, expel or suspend a Member shall be preceded by twenty (20) days written notice of the date when a hearing will be held to determine whether the Member shall be expelled, suspended, terminated or sanctioned. Such notice shall set forth the reasons therefore. Said notice must be given by first class or certified mail sent to the last address of the Member to be expelled, suspended, terminated or sanctioned, as shown in ERCOT's records.
- (b) Hearing. An opportunity shall be provided for the Member to be heard, orally and in writing. The Member shall be entitled to have counsel present at and to participate in the hearing at his or its own expense, and to present and cross-examine any witnesses. The hearing shall be conducted at the next meeting of the Board for which there is time to give proper notice.
- (c) Liability. A Member who has been sanctioned, expelled, terminated or suspended shall be liable to ERCOT for fees as a result of obligations incurred or commitments made prior to sanction, expulsion, termination or suspension.
- (d) Challenges. Any proceeding challenging an expulsion, suspension, sanction or termination, including a proceeding in which defective notice is alleged, must be commenced within one year after the effective date of the expulsion, suspension, sanction or termination. Any such proceeding before the Board will be subject to the hearing requirements described in (b) of this section.

Section 3.9 Resignation. Any other provision of these Bylaws notwithstanding, any Member may withdraw from participation in the activities of ERCOT at any time upon written notice to the CEO, whereupon it shall cease to be a Member, shall cease to be entitled or obligated to participate in the activities of the Board, TAC or any subcommittee of the Board or TAC and shall have no further obligations as a Member; provided, however, that if such notice is given more than thirty (30) days after such Member's receipt of its statement of Annual Member Dues for a fiscal year, the Member shall be obligated to pay its Annual Member Dues for the full fiscal year within which such termination is effective.

Section 3.10 Reinstatement. A former Member may submit a written request for reinstatement of Membership. The Board may choose to reinstate Membership on any reasonable terms that the Board deems appropriate.

Section 3.11 Property Ownership and Control. Subject to applicable laws, rules, regulations, agreements, and ERCOT Protocols, each Member shall retain sole control of its own facilities and the use thereof, and nothing in these Bylaws shall require a Member to construct or dedicate facilities for the benefit of any other electric system or allow its facilities to be used by any other Member, or to construct or provide any facilities for its own use, and nothing herein shall be deemed to impair the ability or right of any Member to take such actions or to fail to act, as it deems necessary or desirable, with respect to the management, extension, construction

maintenance and operation of its own facilities, present and future. A Member has no interest in specific property of ERCOT and waives the right to require a partition of any ERCOT property.

ARTICLE 4 BOARD OF DIRECTORS

Section 4.1 Powers. The affairs of ERCOT shall be managed by the Board (“Board”).

Section 4.2 The Board. The Board shall be composed of a total of sixteen (16) Directors as follows:

- (a) The Chair of the PUCT as an *ex officio* non-voting Director;
- (b) The Public Counsel of OPUC as an *ex officio* voting Director representing Residential Consumers and Small Commercial Consumers;
- (c) The CEO as an *ex officio* voting Director;
- (d) Six (6) voting Directors elected by their respective Segments as follows:
 - 1. One (1) Independent Generator and one (1) Segment Alternate;
 - 2. One (1) IOU and one (1) Segment Alternate;
 - 3. One (1) Independent Power Marketer and one (1) Segment Alternate;
 - 4. One (1) Independent REP and one (1) Segment Alternate;
 - 5. One (1) Municipal and one (1) Segment Alternate;
 - 6. One (1) Cooperative and one (1) Segment Alternate;
- (e) One (1) voting Director representing Industrial Consumers and one (1) Segment Alternate;
- (f) One (1) voting Director representing Large Commercial Consumers and one (1) Segment Alternate; and
- (g) Five (5) voting Directors selected as Unaffiliated Directors.

Section 4.3 Selection, Tenure, and Requirements of Directors and Segment Alternates.

- (a) Selection of Market Segment Directors and Segment Alternates.

- (1) For Consumer Directors, the following shall apply: The Director and Segment Alternate from the Commercial Consumer subsegment shall be elected by the Large Commercial Consumer Corporate Members. If there are no Large Commercial Consumer Corporate Members eligible or willing to serve, then the current Large Commercial Consumer Director shall appoint the Large Commercial Consumer Director and Segment Alternate. The Industrial Consumer Director and Segment Alternate shall be elected by the Industrial Consumer Corporate Members.
- (2) Within each Market Segment represented on the Board (except for the Consumer Segment which follows the process described in Section 4.3(a)(1)), only Corporate Members of the respective Membership Segment for the available Board seat shall be allowed to elect a Director and a Segment Alternate for that seat.
- (3) The Board shall establish procedures for the election and appointment of new Directors, Segment Alternates and Representatives of TAC. A Segment may choose an alternate election procedure for the year by an affirmative vote of at least two-thirds of members of that Segment and may conduct elections as needed to fill any Director or Segment Alternate vacancies.
- (4) With regard to eligibility of Consumer Directors (other than the *ex officio* Consumer Director representing Residential and Small Commercial Consumers), Market Segment Directors and Segment Alternates, the following shall apply:
 - (i) Each Director and Segment Alternate respectively elected by the Industrial Consumer subsegment or the Independent Generator, Independent Power Marketer, Independent Retail Electric Provider, or Investor Owned Utility Market Segments must be an employee of:
 - a. a Corporate or Associate Member; or
 - b. an Affiliate of a Corporate or Associate Member of the respective Market Segment or subsegment which provides services through the Affiliate's employees to such Corporate or Associate Member.
 - (ii) Each Director and Segment Alternate respectively elected by the Large Commercial Consumer subsegment [as described in Section 4.3(a)(1)] or by the Cooperative or Municipal Market Segments must be an employee of a Corporate or Associate Member.
 - (iii) Unless otherwise provided in these Bylaws, if a Director or Segment Alternate is elected or appointed to serve on the Board, such person is only eligible to serve in such capacity so long as he or she is an employee of the same Member or Affiliate as described in Section 4.3(a)(4)(i) (as applicable), as he or she was at the time of such

election or appointment. If the Member or Affiliate as described in Section 4.3(a)(4)(i)(b) (as applicable) is subject to a corporate restructure for tax or operational purposes which is not the result of a merger or acquisition, then such restructure shall not affect the eligibility of the Director or Segment Alternate.

(b) Selection of Unaffiliated Directors.

- (1) The Nominating Committee shall consist of all of the voting Directors, other than the CEO. The Chair and Vice-Chair of the Nominating Committee shall be the Chair and Vice-Chair of the Board, respectively, absent a request for an election of these positions by a member of the Nominating Committee.
- (2) The Nominating Committee shall retain an executive search firm to locate and present candidates with the required qualifications. Qualifications for Unaffiliated Directors shall be as follows:
 - (i) Experience in one or more of these fields: senior corporate leadership; professional disciplines of finance, accounting, engineering or law; regulation of utilities; risk management; and information technology.
 - (ii) Independence of any Market Participant in the ERCOT Region. Requirements of such independence include, but are not limited to, the following:
 - a. 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:
 1. Current or recent ties (within the last two years) as a director, or officer of a Market Participant or its Affiliates;
 2. Current or recent ties (within the last two years) as an employee of an ERCOT Member or NERC-Registered Entity operating in the ERCOT Region;
 3. Direct business relationships, other than retail customer relationships, with a Market Participant or its Affiliates; and
 4. 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.

- b. 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 these Bylaws.
 - (iii) Residence in the State of Texas preferred.
 - (iv) Other criteria as approved by the Board.
 - (3) The Nominating Committee or its subcommittee shall interview the qualified candidates; and the Nominating Committee shall select, by at least a two-thirds majority, an Unaffiliated Director(s) (as such seat is vacant) to present to ERCOT Membership for its approval.
 - (4) The Membership shall vote by Segment as described in Section 13.1(d) in favor or against the proposed Unaffiliated Director(s) as needed to fill Unaffiliated Director positions. A proposed Unaffiliated Director(s) that is approved by at least four out of seven Segments shall be elected as an Unaffiliated Director(s). Upon election by the Membership, ERCOT staff shall file a petition for approval of the Unaffiliated Director(s) with the PUCT.
 - (5) The Membership-elected Unaffiliated Director(s) shall be seated only upon approval by the PUCT. If elected by the Membership, an Unaffiliated Director shall not begin service for his initial term and be seated on the Board until the PUCT approves such election. An Unaffiliated Director who has been elected by the Membership for any renewal term shall cease service on the Board upon expiration of the Unaffiliated Director's current term and shall not be re-seated on the Board for a renewal term until the PUCT approves such election of the Unaffiliated Director for a renewal term. If the PUCT does not approve of the Unaffiliated Director for any of the initial or renewal terms, then the Nominating Committee shall recommend another Unaffiliated Director candidate to the Membership for election and, if elected by the Membership, for approval by the PUCT as soon as reasonably possible.
 - (c) Terms. The term for all Market Segment Directors shall be for one year. Any Market Segment Director may be reappointed or reelected for consecutive terms. The term for all Unaffiliated Directors shall be three year terms, which shall be staggered to the extent possible, unless changed by Amendment to these Bylaws. An Unaffiliated Director may be reelected for up to two consecutive terms. In order to serve on the Board during their terms, all Directors and Segment Alternates shall continuously remain in good standing and meet their respective minimum requirements and qualifications of their Director and Segment Alternate positions, respectively.
 - (d) Director Voting Weights. All voting Directors shall have a single vote each.

- (e) Alternates and Proxies. Market Segment Directors with a Segment Alternate may not designate other alternate representatives and may not designate another Director as a proxy unless their Segment Alternate is unavailable. Unaffiliated Directors may designate another Director, preferably an Unaffiliated Director whenever possible, as a proxy if unable to attend a Board meeting. Consumer Directors and *ex officio* Directors may designate a proxy or an alternate representative who may attend meetings and vote (if applicable) in the absence of such Director.
- (f) Prohibitions on Certain Stakeholder Memberships and Representation. With the exception of the Public Counsel and representatives of OPUC, no Director or Segment Alternate shall vote or otherwise become or hold themselves out as a member, representative or alternate of TAC; any of TAC's subcommittees, task forces or working groups; or any other group the decisions of which may ultimately be appealed to the Board. For a period of one year from the last date of service as an Unaffiliated Director, the former Unaffiliated Director shall not represent a Market Participant before the Board, TAC, any of TAC's subcommittees, task forces or working groups.

Section 4.4 Chair and Vice Chair. Annually and as needed, the Board shall elect, from the Board's membership, by an act of the Board as set forth in Section 4.7, a Chair and a Vice Chair. The Chair shall be one of the Unaffiliated Directors. The Vice Chair shall be an Unaffiliated Director who may serve as needed in the Chair's absence (including a vacancy of the Chair position). The CEO shall not be qualified to act as the Vice Chair.

Section 4.5 Vacancies and Removal.

- (a) A vacancy of a Director or Segment Alternate position will occur if: (1) the respective Director, other than an Unaffiliated Director, or Segment Alternate elected or appointed is no longer employed by the Entity for which the Director or Segment Alternate was employed at the time of his election or appointment; (2) the respective Director or Segment Alternate resigns his Director or Segment Alternate position from the Board; or (3) the Director or Segment Alternate is removed from the Board in accordance with the provisions of Section 4.5(b).
- (b) A Director or Segment Alternate may be removed: (1) with or without cause at any time by whomever had the right to appoint such respective Director or Segment Alternate, or if elected, by an affirmative vote of sixty percent (60%) of the Members allowed to elect that Director or Segment Alternate; or (2) with cause by the Board upon at least seventy-five percent (75%) affirmative votes of the eligible, remaining voting Directors. Removal shall occur if: (1) a Director, other than an Unaffiliated Director, a Segment Alternate, or the organization that a Director, other than an Unaffiliated Director, or Segment Alternate represents no longer meets the criteria of their representative Segment; or (2) an Unaffiliated Director, a Director, a Segment Alternate, or the organization that a Director or Segment Alternate represents is: (A) found by the Board to have committed a prohibited act as identified in Section 9.3 of these Bylaws pursuant to and after completion of a hearing process as described in Section 9.3 of these Bylaws, and (B) the Board recommends removal of an Unaffiliated Director, a Director or a Segment

Alternate from the Board. Any Board action to remove a Director or a Segment Alternate from the Board shall be subject to review by the PUCT. An Unaffiliated Director may be removed by the PUCT in accordance with applicable law.

- (c) The right to elect Directors or Segment Alternates may not be assigned, sold, pledged or transferred in any manner.
- (d) A vacancy may be filled only by the persons authorized to elect or appoint such Director or Segment Alternate.
- (e) The Chair of the Nominating Committee shall notify the PUCT Commissioners when a vacancy of an Unaffiliated Director position occurs and shall provide information to the PUCT Commissioners as required by the PUCT.
- (f) Any Director or Segment Alternate so chosen shall serve in his respective Director or Segment Alternate position until the earlier of the expiration of his term, resignation, ineligibility, inability to serve or removal.

Section 4.6 Meetings.

- (a) The Board shall meet at least quarterly, with at least one meeting occurring in conjunction with the Annual Meeting of the Members. Additional meetings of the Board shall be held at such time and at such place as may from time to time be determined by the Board. Special meetings of the Board may be called by the Chair, Vice Chair, or the CEO or his designee.
- (b) Notice stating the purpose, business to be transacted, place, date and hour of any meeting of the Board or any Board subcommittee where at least one Board Director is present shall be given to each Director and made available electronically to the public on the Internet not less than one week before the date of the meeting; provided, however, the Board may meet on urgent matters on such shorter notice, not less than 2 hours, as the person or persons calling such meeting reasonably may deem necessary or appropriate for urgent matters (emergency conditions threatening public health or safety, or a reasonably unforeseen situation).
- (c) The Board and its subcommittees having at least one Director may meet by teleconference to consider urgent matters in accordance with Section 4.7(e). The Board must ratify any action taken on notice of less than one week or by teleconference at its next regularly scheduled meeting.
- (d) The Board shall promulgate procedures allowing public access to meetings of the Board and Board subcommittees and allowing for members of the public to provide comment on the matters under discussion at public portions of meetings of the Board and subcommittees.

- (e) Meetings of the Board or Board subcommittees shall be open to the public provided that the Board or Board subcommittee on which at least one Board Director sits may, at its discretion, exclude any persons who are not Directors from any meeting or portion of any meeting held in Executive Session, including for purposes of voting. An Executive Session shall be held at the discretion of the Board or Board subcommittee for sensitive matters including, but not limited to, confidential personnel information, contracts, lawsuits, deliberation of purchase of real property, competitively sensitive information, deployment or implementation of security devices or other information related to the security of ERCOT's regional electrical network and discussion of any matters on which the Board receives legal advice from its attorney(s) in which the Texas Disciplinary Rules of Professional Conduct impose on the attorney(s) a duty to preserve confidentiality, including but not limited to anticipated or pending litigation, administrative agency contested cases, and other regulatory matters.
- (f) The Secretary or his designee shall keep minutes of every Board meeting.

Section 4.7 Quorum; Action by Directors; Abstentions; Proxies; Seated Directors; Actions Without a Meeting; and Meetings by Telephone.

- (a) Except as may be otherwise specifically provided by law, the Articles of Incorporation or these Bylaws, at all meetings of the Board, fifty percent (50%) of the Seated Directors shall constitute a quorum for the transaction of business; and abstentions do not affect calculation of a quorum.
- (b) The act of: (i) at least two-thirds of the affirmative votes of the Eligible Voting Directors; and (ii) at least 50% of the total Seated Directors shall be the act of the Board, unless the act of a greater number is otherwise required by law, the Articles of Incorporation, or these Bylaws. If a quorum shall not be present at any meeting of the Board, the Directors present may adjourn the meeting.
- (c) For purposes of voting on the Board, Directors who abstain from voting shall not have their votes included in the total number of votes from which the requisite percentage of affirmative votes is required for action.
- (d) Written proxies may be used for meetings of the Board or any subcommittees of the Board in accordance with any relevant provisions in these Bylaws and the Texas Non Profit Corporation Act. For any meeting of the Board or any subcommittee of the Board, a Segment Alternate or designated alternate representative, where permitted by these Bylaws, attending in place of a member shall be counted towards a quorum, while proxies shall not be counted towards a quorum.
- (e) Directors (for urgent matters in accordance with Section 4.6) may participate in and hold a meeting by means of a conference telephone or other similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting pursuant to this Section shall constitute presence in person at such meeting, except where a person participates in the meeting for the express

purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened.

Section 4.8 Subcommittees. The Board shall confirm the Representatives of the Technical Advisory Committee (TAC) and may appoint subcommittees as it deems necessary and appropriate to conduct the business of ERCOT. The designation of subcommittees and the delegation thereto of authority shall not operate to relieve the Board or any individual Director of any responsibility imposed upon it or him by law.

Section 4.9 Other Appointments. If requested by the North American Electric Reliability Corporation (“NERC”), the Board shall elect, from among its members, persons to serve on the NERC Member Representatives Committee or its successor. The selection of the representatives shall require an act of the Board as set forth in Section 4.7. If more than one representative is requested, such representatives shall be from different Segments.

Section 4.10 Duties. It shall be the duty of the Board to initiate any specific action required, in their opinion, to fulfill the exempt purposes of ERCOT as stated in the Articles of Incorporation, within the limitations of the Articles of Incorporation, applicable law, and these Bylaws. Such action may be taken by the Board, by such subcommittee(s) as may be formed by the Board, the CEO as directed by the Board or by individuals appointed by the Board provided that the following actions of the Board may not be delegated: (a) approval of the Budget (as defined in Section 10.3); (b) approval of the employment and terms for the CEO, as well as termination of CEO’s employment; (c) ratification of other officers of ERCOT; (d) annual selection of a qualified independent public accounting firm (“Auditor”) to audit the financial statements of ERCOT; (e) approval of the initiation of any non-routine filing to a regulatory agency that requests regulatory action; and (f) initiation of any lawsuit. The Board shall adopt policies regarding the delegation of the following actions: (a) the acquisition of real property; (b) the sale of ERCOT assets; (c) the execution of contracts; (d) large purchases; and (e) borrowing money or establishing a line of credit in the name of ERCOT.

ARTICLE 5 TECHNICAL ADVISORY COMMITTEE

Section 5.1 TAC Representatives.

- (a) For the purposes of this section, membership in the TAC shall be divided in accordance with the definitions of the Segments described in Section 3.1. TAC shall be comprised of the following (“Representatives”):
 - (1) Representatives of four Members elected from each of the six Segments (other than as described for the Consumer Segment) listed in Section 3.1.
 - (2) For the Consumer Segment, Corporate Members of each subsegment shall elect its Representatives. For any subsegment in which there are no Corporate Members, the Consumer Director of that subsegment shall appoint such

Representatives. For the Residential, Commercial and Industrial subsegments, the TAC Representative seats are as follows:

- (i) Two Representatives of Industrial Consumers;
 - (ii) One Representative of Small Commercial Consumers;
 - (iii) One Representative of Large Commercial Consumers;
 - (iv) One Representative of Residential Consumers; and
 - (v) The Public Counsel's designee as an *ex officio* voting member.
- (b) Each TAC Representative shall be entitled to one vote on matters submitted to TAC.
- (c) Fifty-one percent (51%) of the eligible, Seated Representatives of TAC shall constitute a quorum for the transaction of business; and abstentions do not affect calculation of a quorum. Affirmative votes of: (i) two-thirds of the Eligible Voting Representatives of TAC; and (ii) at least 50% of the total Seated Representatives shall be the act of TAC. For purposes of voting on TAC, TAC Representatives shall not have their votes included in the total number of votes from which the requisite percentage of affirmative votes is required for action if: (i) they are not present and have not designated a proxy, or (ii) they abstain from voting.
- (d) Written proxies may be used for meetings of TAC or any subcommittees of TAC in accordance with any relevant provisions in these Bylaws and the Texas Non Profit Corporation Act. For any meeting of TAC or any subcommittee of TAC, where permitted by these Bylaws, attending in place of a member shall be counted towards a quorum, while proxies shall not be counted towards a quorum.
- (e) Unless otherwise provided by law, any action required or permitted to be taken at any meeting of TAC Representatives or any subcommittee of TAC may be taken without a meeting, if a consent in writing, setting forth the action to be taken, is signed by a sufficient number of TAC Representatives or subcommittee members as would be necessary to take that action at a meeting at which all of the TAC Representatives and subcommittee members were present and voted. TAC Representatives or subcommittee members may participate in and hold a meeting by means of a conference telephone or other similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting pursuant to this Section shall constitute presence in person at such meeting, except where a person participates in the meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened. Where action is taken by TAC without a meeting, notice of the proposed action shall be provided to the TAC Representatives in accordance with Section 5.3.

- (f) Each Segment may choose to participate in “Participatory Voting” as described herein. If a Segment chooses to engage in Participatory Voting, each TAC Representative elected by that Segment shall be required to present the decision of the Corporate Members of that Segment. A Corporate Member may delegate an employee or agent other than the Member representative described in Section 3.5 to vote on its behalf for purposes of Participatory Voting. If a Corporate Member of a Segment using Participatory Voting is unable or does not wish to attend a TAC meeting that Member may deliver a written proxy, at any time prior to the start of the meeting at which it will be voted, to a Participatory Voting delegate of any Member of the same Segment. A Corporate Member delegate in attendance at a TAC meeting may give a written proxy to a Participatory Voting delegate of any Member of the same Segment during such meeting.
- (g) All TAC Representatives shall be appointed or elected annually by the Corporate Members of their respective Segments. The term for all TAC Representatives shall be one year. Any TAC Representative may be reappointed or reelected for consecutive terms, without limitation. A vacancy shall be filled by the same means used to elect or appoint the previous TAC Representative. No Entity shall participate in more than one Segment of TAC. The Representatives of TAC shall elect from amongst themselves a Chair and Vice Chair subject to confirmation by the Board. The Chair and Vice Chair shall provide full disclosure pursuant to Section 9.2 (Potential Conflicts of Interest) of these Bylaws during the confirmation process, and any person speaking on behalf of TAC before the Board shall provide full disclosure pursuant to Section 9.2 (Potential Conflicts of Interest) of these Bylaws before speaking on behalf of TAC.
- (h) Each person (other than the Residential Consumers Representative) serving on TAC or any subcommittee thereof must be an employee or agent of a Corporate or Associate Member. Unless otherwise provided in these Bylaws, if an employee or agent of a Member is elected or appointed to serve on TAC or any subcommittee thereof, such person is only eligible to serve in such capacity so long as he or she is an employee or agent of the same Member as he or she was at the time of such election or appointment.
- (i) In the event that a Small Commercial Consumer Representative cannot be identified to serve on TAC, that seat may be filled by any other Commercial Consumer representative appointed by the Consumer Director of the Small Commercial subsegment provided that such representative represents at least one consumer in the ERCOT Region. Any Representative of the Consumer Segment appointed to TAC by a Consumer Director, if not otherwise a Member of ERCOT, shall be allowed to vote on TAC without the payment of the Annual Member Service Fees. An appointed Commercial Consumer TAC Representative is eligible to serve in such capacity so long as he or she is an employee or representative of the same company as he or she was at the time of such appointment.

Section 5.2 Functions of TAC. TAC shall have the authority to create subcommittees, task forces and study groups (“subcommittees”). TAC shall determine the eligibility requirements, quorum requirements and voting structure for each subcommittee. TAC shall (a) through its subcommittees make such studies and plans as it deems appropriate to accomplish the purposes of ERCOT, the duties of its subcommittees and the policies of the Board, (b) report the results of

such studies and plans to the Board as required by the Board, (c) review and coordinate the activities and reports of its subcommittees, (d) make such recommendations to the Board as it deems appropriate or as required by the Board, (e) perform such other duties as directed by the Board and (f) make recommendations regarding ERCOT expenditures and projects. In accordance with ERCOT procedures and applicable law and regulations, certain guidelines, criteria and other actions approved by TAC may be effective upon approval by TAC; provided however, that such actions are reported to the Board for review and nothing herein shall affect the ability of the Board to independently consider such guidelines, criteria and actions, and to take such action with respect thereto as the Board deems appropriate, including revocation and remand with instructions.

Section 5.3 Meetings. TAC and its subcommittees shall meet as often as necessary to perform their duties and functions. All meetings of TAC and its subcommittees shall be called by their respective chairmen and all such meeting notices shall be sent in writing to each member at least one week prior to the meeting, unless an emergency condition should suggest otherwise (such emergency to be by mutual consent of a majority of the Seated Representatives of TAC or subcommittee). Any Member may request notification of any such meetings and may have an employee or a TAC-approved representative for that Member attend as an observer. Each Representative of TAC may designate in writing an alternate representative who may attend meetings in the absence of the Representative and vote on the Representative's behalf.

Section 5.4 Other Appointments. TAC shall elect representatives to the various NERC committees and associated subcommittees, task forces, and working groups whose members are appointed by the NERC Regions. The selection of TAC representatives to NERC shall require an act of TAC as set forth in Section 5.1(c). If more than one representative is requested, TAC should consider selecting representatives from different Segments.

ARTICLE 6

Intentionally Omitted.

ARTICLE 7 CHIEF EXECUTIVE OFFICER

Section 7.1 CEO Hiring and Duties. The Board shall hire a Chief Executive Officer ("CEO") who, under the Board's supervision and direction shall carry on the general affairs of ERCOT. The CEO shall be a member of the staff of ERCOT and shall be an *ex officio* voting Director. It shall be his duty to approve the expenditure of the monies appropriated by the Board in accordance with the Budget approved by the Board. The CEO shall make an annual report and periodic reports to the Board concerning the activities of ERCOT. The CEO shall serve as President of ERCOT. He or she shall comply with all orders of the Board. All agents and employees of ERCOT shall report, and be responsible, to the CEO. The CEO shall perform such other duties as may be determined from time to time by the Board.

Section 7.2 Notice of CEO Vacancy. The Board Chair or the Board Chair's designee shall notify the PUCT Commissioners when a vacancy occurs for the CEO.

Section 7.3 CEO Selection. The Board Chair or the Board Chair's designee shall provide information to the PUCT Commissioners regarding selection of the CEO requested by any of the PUCT Commissioners as required by the PUCT.

Section 7.4 CEO Compensation. The compensation of the CEO shall be approved by the Board.

ARTICLE 8 OFFICERS

Section 8.1 General. The officers of ERCOT shall consist of a President, one or more Vice Presidents, a Secretary, and such officers and assistant officers as the Board may create. The CEO shall serve as President of ERCOT. Any two (2) or more offices may be held by the same person, except the offices of President and Secretary. A subcommittee duly designated may perform the functions of any officer and the functions of two or more officers may be performed by a single subcommittee.

Section 8.2 Tenure. The CEO of ERCOT shall be elected and the other officers of ERCOT shall be ratified by the Board at such time and in such manner and for such a term not exceeding one (1) one year, as shall be determined from time to time by the Board. Any officer may be re-elected or re-ratified for consecutive terms, without limitation. All officers of ERCOT shall hold office until their successors are chosen and qualified or until their earlier resignation or removal. Any officer elected or appointed may be removed by the persons authorized to elect or appoint such officer whenever in their judgment the best interests of ERCOT will be served thereby.

ARTICLE 9 TRANSACTIONS OF CORPORATION

Section 9.1 Deposits and Checks. All of ERCOT's funds will be deposited to the credit of ERCOT in banks, trust companies, or other depositories that the Board approves.

Section 9.2 Potential Conflicts of Interest. Each Director, Segment Alternate, TAC Representative and subcommittee member shall have an affirmative duty to disclose to the Board, TAC or subcommittee (as the case may be) any actual or potential conflicts of interest of the Director, Segment Alternate, TAC Representative or subcommittee member 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, TAC or subcommittee, as the case may be. 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 Segment 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, Segment Alternate, TAC Representative or subcommittee member recuses himself or herself from the deliberation and action on the matter in which the conflict arises, shall not constitute participation.

ERCOT may not make any loan to a Director, Segment Alternate or officer of ERCOT. A Member, Director, Segment Alternate, TAC Representative, officer, or subcommittee member of ERCOT may lend money to and otherwise transact business with ERCOT except as otherwise provided by these 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. ERCOT may not borrow money from, or otherwise transact business with, a Member, Director, Segment Alternate, TAC Representative, officer, or subcommittee member of ERCOT 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 Member, Director, Segment Alternate, officer, TAC Representative or subcommittee member of ERCOT 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.

Section 9.3 Prohibited Acts. As long as ERCOT exists, no Member, Director, Segment Alternate, officer, or subcommittee member of ERCOT may:

- (a) Do any act in violation of the Articles of Incorporation or these Bylaws;
- (b) Do any act in violation of a binding obligation of ERCOT except with the Board's prior approval;
- (c) Do any act with the intention of harming ERCOT or any of its operations;
- (d) Receive an improper personal benefit from the operation of ERCOT;
- (e) Use ERCOT's assets, directly or indirectly, for any purpose other than in furtherance of ERCOT's exempt purposes;
- (f) Wrongfully transfer or dispose of ERCOT property, including intangible property such as good will;
- (g) 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;

- (h) Disclose any of ERCOT's or Members' 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;
- (i) 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;
- (j) With regard to the Directors and Segment Alternates, do any act in violation of an ERCOT rule [as that term is defined in PUCT Substantive Rule Section 25.361(a)], PUCT rule, or applicable statute.

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

ARTICLE 10 EXPENSES, BOOKS AND RECORDS

Section 10.1 Member Representatives' Expenses and Compensation of Certain Directors and TAC Representatives.

- (a) Except as described below, ERCOT shall not bear the personal and travel expenses of each person who serves as a representative of a Member or as a Director, Segment Alternate, TAC Representative or subcommittee member. Except as provided below, no such person shall receive any salary or other compensation from ERCOT.
- (b) The Board shall have the authority to fix the compensation of its Unaffiliated Directors who may be paid a fixed sum plus reimbursement of travel expenses for attendance at each meeting of the Board, or a stated compensation as a member thereof, or any combination of the foregoing. Unaffiliated Directors, who are members of standing or special committees, may be allowed like compensation and reimbursement of travel expenses for attending committee meetings. Unaffiliated Directors and Consumer Directors may be reimbursed for registration, travel, lodging and related expenses for training activities and Unaffiliated Directors shall be reimbursed for travel lodging and related expenses for attending each meeting of the Board. The reimbursement of travel expenses by ERCOT shall be in accordance with ERCOT policies on the reimbursement of appropriate and reasonable, documented travel expenses.
- (c) The Board shall fix the compensation for the appointed Residential Consumer TAC Representative for attendance at each meeting of the Board, TAC, or any standing or special committee of such on an annual basis. Any Residential Consumer TAC Representative shall not be an agent of ERCOT for any purpose and shall not be considered to be serving at ERCOT's request, even though compensated by ERCOT.

Section 10.2 ERCOT Expenses. The expenses of ERCOT shall include, but not be limited to, administrative expenses, operational costs and debt service.

Section 10.3 Budget. A budget (the “Budget”) for ERCOT for the ensuing one or more fiscal years shall be adopted by the Board. In connection with the Board’s approval, the Budget, including cost of liability insurance, for ERCOT shall be compiled by the CEO and submitted to the Board. To be effective, the Budget must be approved by an act of the Board as set forth in Section 4.7. The representatives of each Member shall be promptly notified of the Budget following adoption of the Budget by the Board.

Section 10.4 Loans and Guarantees. Neither participation in the activities of ERCOT nor any provision of these Bylaws or of the Articles of Incorporation shall be deemed to constitute a pledge or loan of the credit of any Member for the benefit of ERCOT or a guarantee by any Member of any obligation of ERCOT.

Section 10.5 Access to Books and Records. All Members of ERCOT will have access to the books and records of the organization, including financial statements and budgets; however, the Board shall establish procedures by which a Member, upon written demand stating the purpose of the demand may examine and copy the books and records of ERCOT. If necessary to protect the confidential information of ERCOT, a Member requesting examination of ERCOT’s books and records may be required to sign a confidentiality and non-disclosure agreement before viewing such information. The procedures shall include policies that provide reasonable protection against the unnecessary disclosure of information related to individual employees, including their compensation.

Section 10.6 Audit. At least annually, an audit of the financial statements of ERCOT shall be performed by the Auditor approved by the Board. The Auditor’s opinion and the audited financial statements will be made available to all Members as described in Section 10.5.

Section 10.7 Fiscal Year. The fiscal year of ERCOT shall be from January 1 through the following December 31, or as otherwise fixed by resolution of the Board.

ARTICLE 11 INDEMNIFICATION

Section 11.1 Indemnification. EACH PERSON WHO AT ANY TIME SHALL SERVE, OR SHALL HAVE SERVED, AS A DIRECTOR, OFFICER, EMPLOYEE OR AGENT OF ERCOT, OR ANY PERSON WHO, WHILE A DIRECTOR, OFFICER, EMPLOYEE OR AGENT OF ERCOT, IS OR WAS SERVING AT ITS REQUEST AS A DIRECTOR, OFFICER, PARTNER, VENTURER, PROPRIETOR, TRUSTEE, EMPLOYEE, AGENT OR SIMILAR FUNCTIONARY OF ANOTHER FOREIGN OR DOMESTIC CORPORATION, PARTNERSHIP, JOINT VENTURE, SOLE PROPRIETORSHIP, TRUST, EMPLOYEE BENEFIT PLAN OR OTHER ENTERPRISE, SHALL BE ENTITLED TO INDEMNIFICATION AS, AND TO THE FULLEST EXTENT, PERMITTED BY ARTICLE

1396-2.22A OF THE TEXAS NON-PROFIT CORPORATION ACT OR ANY SUCCESSOR STATUTORY PROVISION, AS FROM TIME TO TIME AMENDED, SUCH ARTICLE OR SUCCESSOR PROVISION, AS SO AMENDED, BEING INCORPORATED IN FULL IN THESE BYLAWS BY REFERENCE. THE FOREGOING RIGHT OF INDEMNIFICATION SHALL NOT BE DEEMED EXCLUSIVE OF ANY OTHER RIGHTS TO WHICH THOSE TO BE INDEMNIFIED MAY BE ENTITLED AS A MATTER OF LAW OR UNDER ANY AGREEMENT, VOTE OF DISINTERESTED DIRECTORS, OR OTHER ARRANGEMENT.

ARTICLE 12 NOTICES

Section 12.1 Form. Unless otherwise provided in these Bylaws, any notice required by these Bylaws to be given to a Member, Director, Segment Alternate, committee or subcommittee member, TAC Representative, member of a subcommittee of TAC, or officer of ERCOT must be given by at least two of the following methods: mail, facsimile, email, or website posting. If mailed, a notice is deemed delivered when deposited in the mail addressed to the person at his address as it appears on the corporate records, with postage prepaid. A person may change his address in the corporate records by giving written notice of the change to the CEO.

Section 12.2 Signed Waiver of Notice. Whenever any notice is required by law or under ERCOT's Articles of Incorporation or these Bylaws, a written waiver signed by the person entitled to receive such notice is considered the equivalent to giving the required notice. A waiver of notice is effective whether signed before or after the time stated in the notice that was to be given.

Section 12.3 Waiver of Notice by Attendance at a Meeting. Attendance at a meeting shall constitute a waiver of notice of such meeting, except where attendance is for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened.

Section 12.4 Objection. If any person, who is a voting member of a group holding a meeting, reasonably objects to the transaction of business regarding a specific issue, or issues, at a meeting on the grounds that the meeting is not properly called or convened or that the issue, or issues, was improperly noticed, the issue or issues in question may not be addressed at that meeting. The Chair of such meeting shall determine if such objection is reasonable.

ARTICLE 13 AMENDMENTS

Section 13.1 Amendments to these Bylaws. Subject to the provision that no amendment to these Bylaws may limit the rights of a Member to resign from Membership and subject to approval by the PUCT, these Bylaws may be amended, altered, or repealed by the voting Segments through the following procedure:

- (a) Any Corporate Member suggesting amendments to these Bylaws must submit a proposal of the amendment, including any necessary supporting documents, to the CEO.
- (b) The CEO shall place the proposal on the agenda for a Board meeting in the time and manner prescribed by the Board.
- (c) If the proposal is approved by an act of the Board as set forth in Section 4.7, the Board shall place the proposal on the agenda of the next Annual Meeting of the Corporate Members unless the Board in its discretion calls a Special Meeting of the Corporate Members to vote on the proposal or determines to seek Membership approval without a meeting as provided in Section 14.8.
- (d) Corporate Members must vote to enact the Board-approved amendment by the following voting procedure:
 - (1) For the purposes of voting on Bylaws, each Segment shall have one whole vote.
 - (2) Except for the Consumer Segment, an affirmative vote of at least two-thirds of the Corporate Members of a Segment present constitutes an affirmative vote by that Segment.
 - (3) For purposes of voting on Bylaws amendments, the Consumer Segment shall be subdivided into the following Consumer subgroups:
 - (i) Residential Consumers;
 - (ii) Commercial Consumers; and
 - (iii) Industrial Consumers.An affirmative vote of the majority of the Corporate Members within a Consumer subgroup shall constitute an affirmative vote of that subgroup. An affirmative vote of at least two of the three Consumer subgroups shall constitute an affirmative vote of the Consumer Segment.
 - (4) An affirmative vote by at least four of the seven Segments shall be necessary to amend these Bylaws.

Section 13.2 Amendments to the Articles of Incorporation. In accordance with the procedures set forth in Article 1396-4.02 of the Texas Non-Profit Corporation Act, an affirmative vote of at least two-thirds of all Corporate Members shall be required to amend the Articles of Incorporation.

ARTICLE 14 MISCELLANEOUS PROVISIONS

Section 14.1 Legal Authorities Governing Construction of Bylaws. These Bylaws shall be construed under Texas law. All references in these Bylaws to statutes, regulations, or other sources of legal authority will refer to the authorities cited, or their successors, as they may be amended from time to time.

Section 14.2 Legal Construction. Any question as to the application or interpretation of any provision of these Bylaws shall be resolved by the Board. To the greatest extent possible, these Bylaws shall be construed to conform to all legal requirements and all requirements for obtaining and maintaining all tax exemptions that may be available to nonprofit corporations. If any Bylaw provision is held invalid, illegal, or unenforceable in any respect, the invalidity, illegality, or unenforceability will not affect any other provision, and these Bylaws will be construed as if they had not included the invalid, illegal, or unenforceable provision.

Section 14.3 Headings. The headings used in these Bylaws are for convenience and may not be considered in construing these Bylaws.

Section 14.4 Number and Gender. All singular words include the plural, and all plural words include the singular. All pronouns of one gender include reference to the other gender.

Section 14.5 Parties Bound. These Bylaws will bind and inure to the benefit of the Members, Directors, Segment Alternates, TAC Representatives, officers, subcommittee members, employees, and agents of ERCOT and their respective administrators, legal representatives, successors, and assigns except as these Bylaws otherwise provide.

Section 14.6 Effective Date. The effective date of these Amended and Restated Bylaws is September 11, 2014, provided that the Board may implement transition procedures before the effective date in order to ensure a smooth transition to the structure described in these Bylaws.

APPENDIX B
BOARD POLICIES AND PROCEDURES

Board Policies and Procedures
Amended Effective August 12, 2014
By the ERCOT Board of Directors

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Preamble: Definitions

- 0.1 The Definitions included in the Amended and Restated Bylaws of Electric Reliability Council of Texas, Inc. (the “Bylaws”) are incorporated by reference.

I. Meeting Procedures

- 1.1 Meeting Schedule. Board meetings are normally held on the third Tuesday of the month when the Board is scheduled to meet, but may be moved or held by agreement of the Board, provided that the Board shall meet at least quarterly consistent with the Bylaws.
- 1.2 Meeting Notice. Notice of each full Board meeting with the Board agenda shall be given consistent with the Bylaws.
- 1.3 Board Agenda Items. A Director is entitled to place matters the Director reasonably considers important on the Board agenda if notification of such matters and background materials are received by the Secretary of the Corporation no later than 5 p.m. eleven days before the date of the Board meeting (*e.g.*, normally on the Friday before the second Tuesday of the month during which the Board is scheduled to meet). ERCOT Members and Market Participants, with permission of the Chair, may request that matters be placed on the Board agenda if notification of such matters and background materials are received by the Secretary of the Corporation no later than 5 p.m. eleven days before the date of the Board meeting (*e.g.*, normally on the Friday before the second Tuesday of the month during which the Board is scheduled to meet).
- 1.4 Board Packet. When a Board agenda contemplates the Board taking specific actions, ERCOT staff will provide Directors a “Board Packet” with all appropriate information at least seven (7) days prior to the meeting to allow study of and reflection on the issue raised. If such information is not available seven (7) days in advance of the meeting, ERCOT staff shall send information to the Directors as soon as such information is reasonably available. Information that ERCOT staff provides to the Directors which is not “sensitive” (as described in Section 4.6(e) of the Bylaws) must also be made available electronically to the public on the Internet, along with the agenda of the meeting. A Director may request that the Board defer action if he or she requires additional information or additional time to review appropriate information.
- 1.5 Minutes. Minutes shall be kept for all meetings of the full Board, Board Committees, TAC and TAC subcommittees. Such minutes, except those which are held in Executive Session, shall be posted on ERCOT’s website for at least one year following the date of the meeting. ERCOT shall maintain a permanent record of the minutes of full Board meetings. ERCOT shall maintain records of meetings of TAC and TAC subcommittees for five years.
- 1.6 Executive Session. The Board may meet in Executive Session for purposes consistent with governing law and with the Bylaws. The notice for Executive Session discussion items may be worded such that the sensitive nature of the item is not compromised or disclosed. Except

for acting to approve the minutes of prior Executive Sessions, the Board shall emerge from Executive Session before voting or taking any action on any Executive Session noticed items or based on Executive Session discussions.

II. Responsibilities, Qualifications, and Compensation of the Board of Directors

- 2.1 Annual Goals and Objectives. In keeping with its fiduciary duties to ERCOT, the Board shall establish the overall direction and affirm the annual goals and objectives developed by ERCOT staff. The Board shall review such goals and objectives on an ongoing basis, and may issue policies and resolutions setting forth direction of ERCOT management actions to attain such goals and objectives. The Board's primary responsibility is to ensure that ERCOT maintains reliability and operates in a fair, efficient and non-discriminatory manner. The Board is also responsible for overseeing ERCOT's administration of the ERCOT Protocols.
- 2.2 Duties. The Board shall faithfully discharge its duties by conducting its affairs in a highly ethical and sound business manner. The Board, collectively and severally, will not direct the policies and actions of ERCOT from perspectives of private gain or personal advantage.
- 2.3 Chief Executive Officer and Management. Subject to applicable approval by the PUCT, the Board shall retain a Chief Executive Officer ("CEO") with the capabilities to execute Board policies. The Board delegates to the CEO all general powers and duties necessary to accomplish ERCOT's purpose, goals, and objectives as established by the Board, except for those specifically reserved to the Board by the Bylaws or herein. The CEO and management are required to supply Directors with sufficient information to keep Directors properly informed about the business and affairs of ERCOT.
- 2.4 Matters Reserved for Board Approval. Except for and subject to those matters which require PUCT approval or are mandated by the PUCT without Board approval, the Board expressly reserves the following matters for Board approval:
- 2.4.1 Those matters reserved by the Bylaws.
- 2.4.2 Approval of the initiation of any non-routine filing that seeks regulatory action by a regulatory agency; provided that emergency situations may require immediate regulatory filings to protect the interests of ERCOT and may be filed by the General Counsel in its reasonable discretion without prior approval of the Board if there is concurrence of the CEO, General Counsel, the Chair and Vice Chair of the Board for such filing, and provided that the Board is notified as soon as practicable.
- 2.4.3 Initiation of any lawsuit; provided that emergency situations may require immediate legal action including the initiation of a lawsuit to protect the interests of ERCOT. Such a lawsuit may be initiated by the General Counsel without prior approval of the Board if there is concurrence of the CEO, General Counsel, the

Chair and Vice Chair of the Board for such filing, and provided that the Board is notified as soon as practicable and the Board subsequently ratifies the filing.

- 2.4.4 Approval of the purchase of goods or services for ERCOT's use, or of a contract for such purchase, with a value of over one million dollars (\$1,000,000.00) if such purchase or contract is not contemplated in ERCOT's Board-approved Budget. With regard to this section, approval is not required if ERCOT is directed, required or ordered to purchase goods or services by contract or otherwise by the PUCT.
- 2.4.5 Approval of the sale or pledge of any ERCOT assets valued in excess of one million dollars (\$1,000,000.00).
- 2.4.6 Establishment of any line of credit, loans, or other forms of indebtedness in the name of ERCOT exceeding one million dollars (\$1,000,000.00).
- 2.5 CEO Delegations. The Board shall exercise reasonable diligence to ensure that the delegations to the CEO provided in this policy statement are properly implemented. The Board will articulate clear and coherent goals and statements of its expectations through its policies and the adoption of the Budget. The CEO is responsible for fulfilling these commitments and managing the organization.
- 2.6 Individual Director Duties. Each Director shall, individually, have the following duties:
 - 2.6.1 Attend all regular, special and urgent meetings of the Board when notified, unless circumstances prevent the Director from attending. If attendance is not possible, Bylaws procedures for Segment Alternates, Proxies and Alternate Representatives shall be followed.
 - 2.6.2 Participate in the selection of the members of all committees and subcommittees of the Board represented by his or her particular Market Segment.
 - 2.6.3 Not disclose the confidential information of ERCOT to unauthorized people.
 - 2.6.4 Handle any actual or potential conflict of interest in accordance with Bylaws Section 9.2.
 - 2.6.5 Consistent with the fiduciary duty of care in overseeing, monitoring, and supervising the affairs of ERCOT, prepare for and participate to the best of his or her ability in determination of policy and other matters coming before the Board.
 - 2.6.6 Set policy and make decisions in the best interest of the ERCOT organization and the ERCOT market.
 - 2.6.7 Upon joining the Board and annually thereafter, sign the ERCOT Director Ethics Agreement.

- 2.7 Director Qualifications. Each Director shall meet the following qualifications:
- 2.7.1 Have a willingness to serve the Membership of ERCOT and to commit the time and resources necessary to carry out the duties of a Director.
 - 2.7.2 Be willing to work cooperatively with ERCOT Members.
 - 2.7.3 For Market Segment Directors, possess significant electric energy-related work experience in a senior or executive management level in the Market Segment he or she represents, and meet employment qualifications as required by the Bylaws.
 - 2.7.4 Meet all qualifications defined by the Bylaws or required by the PUCT or Texas or other governing law.
- 2.8 Compensation and Expense Reimbursement for Unaffiliated Directors.
- 2.8.1 Unaffiliated Director Compensation. Each Unaffiliated Director will receive the following:
 - 2.8.1.1 Annual Retainer. The Annual Retainer shall be \$87,000 and shall cover a full calendar year (January to December) and shall be paid to each Unaffiliated Director in equal monthly installments of \$7,250.
 - 2.8.1.2 Board Committee Chair Compensation. Each Unaffiliated Director who serves as the Chair of a Committee of the Board shall be paid \$5,600 in addition to the Annual Retainer.
 - 2.8.1.3 Board Vice Chair Compensation. Each Unaffiliated Director who serves as the Vice Chair of the Board shall be paid \$7,500 in addition to the Annual Retainer.
 - 2.8.1.4 Board Chair Compensation. Each Unaffiliated Director who serves as the Chair of the Board shall be paid \$12,800 per year, in addition to the Annual Retainer.
 - 2.8.2 Expense Reimbursement.
 - 2.8.2.1 Affiliated Directors. Affiliated Directors are generally expected to be reimbursed by their employers. Unaffiliated Directors, and Affiliated Directors who may receive limited reimbursement from time to time, shall comply with the ERCOT Business Expense Reimbursement Corporate Standard.
 - 2.8.2.2 Business Expense Reimbursement. General Counsel shall provide Directors with the Business Expense Reimbursement Corporate Standard and a summary thereof, upon new Directors joining the Board and also whenever modifications are made to the Standard.

2.9 Compensation for Residential Consumer TAC Representative.

2.9.1 Retainer, Meeting Fees and Compensation Cap. Compensation for the Residential Consumer TAC Representative shall be as follows: (i) a retainer of \$1,500 per month; and (ii) \$500 per TAC or other standing or special TAC subcommittee meeting actually attended. Total compensation for the Residential Consumer TAC Representative shall not exceed \$3,000 per month.

2.9.2 Business Expense Reimbursement. The Residential Consumer TAC Representative shall be eligible for reimbursement of reasonable business expenses associated with attending meetings of TAC or other standing or special TAC subcommittee, but shall comply with the ERCOT Business Expense Reimbursement Corporate Standard.

III. Delegation of Authority to the Chief Executive Officer

3.1 CEO Responsibility and Authority. Consistent with the goals, objectives, policies, and specific directions of the Board, and the Bylaws, the CEO is responsible for carrying out the business activities of ERCOT. The CEO shall have the authority to execute contracts and agreements, establish lines of credit, and take all other lawful actions, as he may deem expedient and proper in conducting the business of ERCOT, except as may be limited by the Board.

3.2 CEO Delegation to Officers and Employees. The CEO may delegate his authority to other ERCOT officers or employees in his discretion, except as limited by the Board. The CEO shall issue appropriate management procedures setting forth the direction of staff management and other employee actions to fulfill the goals, objectives, policies and other directions of the Board.

3.3 Budget. The CEO will present to the Board by October of each year when the Budget is to be approved, or at such other time as directed by the Board, a Budget to carry out the Board's directives for the following year or longer as directed by the Board. The Budget will include projections of ERCOT's overall financial performance and financing plans, and describe the services, projects, programs, and the associated revenues and expenditures for the next fiscal year. Adoption of the Budget by the Board and as approved by the PUCT authorizes the CEO to complete work plans and make associated expenditures as provided for in accordance with the Budget.

3.4 Information for the Board. The CEO is responsible for bringing policy matters to the attention of the Board when its current policies give inadequate direction for ERCOT operations or leave ERCOT at a disadvantage because of changing conditions. The CEO will provide thorough, well-organized information to the Board in a timely manner. Communications to the Board will be made forthrightly and with candor in the evaluation of the conduct of business and operations of ERCOT. In the discretion of the CEO, significant contracts, agreements, or other major decisions may be brought to the Board

for specific approval. In coordination with the General Counsel, the CEO shall represent ERCOT in communicating the position and interests of ERCOT to legislative bodies.

- 3.5 Internal Controls. Consistent with the Board's guidance and the ERCOT Internal Control Management Program, the CEO will approve and enforce appropriate policies, standards and procedures for ERCOT, to ensure adequate internal controls for ERCOT business and operations.

IV. Procedure for the Sale of ERCOT Assets

- 4.1 Sale of Assets. Personal property that is no longer necessary, convenient or of beneficial use to the business of ERCOT, and that has a fair market value of one million dollars (\$1,000,000.00) or less may be sold, transferred, auctioned, or conveyed by the CEO for its fair market value. ERCOT shall use revenues from the sale of its property to offset ERCOT expenses.

V. Procedure for Termination or Liquidation of ERCOT

- 5.1 Termination or Liquidation. Upon termination or liquidation of ERCOT, the Board shall, consistent with applicable federal and state regulatory requirements, liquidate ERCOT, and dispose of its property and assets in the manner required by its governing documents and Texas law applicable to non-profit corporations.

VI. Procedure by Which a Member May Examine and Copy the Corporate Financial Books and Records of ERCOT

- 6.1 Member Right of Inspection. Every Member shall have the right at any reasonable time to inspect ERCOT's corporate financial books and records of account subject to the following Procedures:
- 6.1.1 The Member representative must be acting upon the authority of the Member, as evidenced in writing by the representative designated and listed in ERCOT's records for that Member.
 - 6.1.2 The writing must state a legitimate business purpose for the inspection and identify the documents the Member desires to inspect.
 - 6.1.3 The writing must state the date and time of the inspection, such date and time to be no less than 10 days after ERCOT receives the request and shall be during ERCOT's normal business hours.
 - 6.1.4 If the information requested is determined to be Confidential Information of ERCOT, ERCOT shall require the Member to sign a Confidentiality and Non-Disclosure Agreement in a form acceptable to ERCOT. Non-public information relating to individual ERCOT employees, including compensation, shall not be

subject to disclosure. ERCOT retains the right to withhold information that is confidential by law or by contract.

6.1.5 If the information requested is determined to be Confidential Information of an ERCOT Member, ERCOT shall not disclose such information except as provided in the ERCOT Protocols.

6.1.6 If Confidential Information is requested by the Member or a Market Participant who provided ERCOT the information, ERCOT shall provide copies of such information to the Member or Market Participant, or its designee upon written authorization by the Member or Market Participant.

6.2 Prohibition against Dissemination of Confidential Information. No Member shall use or disseminate any information obtained as a result of any such inspection in its capacity as a Member, for his or her own personal gain, to the detriment of ERCOT or its staff, or to the detriment of any competitors of any Entity with which the Member is affiliated, except in connection with the enforcement of a tariff, contract or applicable law and consistent with the Protocols and ERCOT's policy regarding Confidential Information.

VII. Procedures for the Selection of New Board Members, Board Chair and Vice Chair, and TAC Representatives

7.1 Annual Meeting and Record Date. At least two months prior to the Annual Meeting of the Corporate Members, the ERCOT Board will set the date and location for the Annual Meeting. The Record Date for determining the Corporate Members entitled to notice of and representation at the Annual Meeting is set forth in the Bylaws.

7.2 Elections of TAC Representatives, Market Segment Directors and Segment Alternates. For TAC Representatives, Market Segment Directors and Segment Alternates, as appropriate, to be elected by their respective Market Segments, one of two procedures shall apply: (a) ERCOT will provide all Corporate Members of the Segment or Subsegment with advance notice that the Segment or Subsegment will be holding the election, and follow-up notice of election results; or (b) ERCOT will directly facilitate the election according to the following procedures:

7.2.1 On the next business day after the Record Date, ERCOT will send a list of all the Members in each Segment or Subsegment, by membership level (*i.e.*, Corporate, Associate or Adjunct) to ERCOT Members.

7.2.2 ERCOT will request that Corporate Members of each Segment or Subsegment nominate Directors, Segment Alternates, as appropriate, and TAC Representatives and forward their nominations to ERCOT.

7.2.3 With the nominations provided, ERCOT will then create and provide ballots to Corporate Members for return to ERCOT.

- 7.2.4 ERCOT will facilitate a meeting of the Segment or Subsegment to assist in the nomination and election process if requested.
- 7.2.5 Only Corporate Members may participate in the election of Directors, Segment Alternates, as appropriate, and TAC Representatives for the Segment or Subsegment in which they are members.
- 7.2.6 Each seat shall be filled by the person receiving the most votes (proxies allowed) of eligible Corporate Members.
- 7.3 Selection and Election of Unaffiliated Directors. For Unaffiliated Directors, subject to applicable law, statute or PUCT rule, the following procedures shall apply:
- 7.3.1 All new Unaffiliated Directors shall be selected in accordance with the process established in the Bylaws.
- 7.3.2 Six months prior to the expiration of an Unaffiliated Director's term, such Director shall indicate whether he or she wishes to remain on the Board for another term (if applicable). If the Unaffiliated Director desires to remain on the Board, the Nominating Committee will vote on whether such Unaffiliated Director may be nominated again for the Board.
- 7.3.3 If an Unaffiliated Director elects to leave the Board or, due to the upcoming expiration of an Unaffiliated Director, the Nominating Committee otherwise elects to seek potentially a new Unaffiliated Director, the Nominating Committee shall retain an executive search firm to begin the candidate selection process, pursuant to the Bylaws.
- 7.3.4 Where 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.
- 7.4 Appointment of Residential Consumer TAC Representatives. Notwithstanding Section 7.2, for the Residential Consumer Subsegment, the Public Utility Counsel shall appoint Residential Consumer TAC Representative(s). ERCOT will assist, if requested, in providing potential candidates for such seats. The Public Utility Counsel shall identify their appointees to ERCOT at least one week prior to the Annual Meeting. ERCOT will notify new Consumer appointees of the information necessary to attend the Annual Meeting.
- 7.5 Facilitation of Election. If a Segment is unable to elect a Director, Segment Alternate, as appropriate, or TAC Representative at least two weeks prior to the Annual Meeting, ERCOT will notice a meeting of the Segment to facilitate the election.

- 7.6 Election Results and Confirmation. Prior to the Annual Meeting of Corporate Members, ERCOT will determine the results of the elections. At the Annual Meeting, the new Directors, Segment Alternates and TAC Representatives will be announced and confirmed. The new Directors, Segment Alternates and TAC Representatives will be seated according to their elected terms.
- 7.7 Election and Terms of Board Chair and Vice Chair. The Board shall elect the Board Chair and Vice Chair pursuant to the Bylaws. The Board Chair and Vice Chair shall be elected to serve in their positions until their respective successors are elected in the following year to avoid any break in service of Board leadership.

VIII. Procedures for Participation by Parties Opposing Actions Recommended by TAC or ERCOT Staff

- 8.1 Procedural Situations Addressed by this Section. Any ERCOT Member, Market Participant, PUCT Staff, Texas RE Staff or ERCOT may: (a) appeal a TAC action to reject, defer, remand or refer a matter that would have proceeded to the Board for consideration had it been recommended for approval by TAC, and requires a TAC recommendation as part of the approval process, directly to the ERCOT Board (“TAC Appeal”); or (b) submit written comments requesting a Board action to reject, defer, remand, or refer a matter that is before the Board for consideration, and requires a TAC recommendation as part of the approval process (“TAC Recommendation Opposition”); or (c) submit written comments opposing a voting item recommended by ERCOT staff that does not require a TAC recommendation prior to Board action (“ERCOT Recommendation Opposition”). Board consideration of TAC Appeals and TAC or ERCOT Recommendation Oppositions will be conducted pursuant to the process and timelines provided in this Section VIII.
- 8.2 Advance Notice of TAC Appeals, TAC Recommendation Oppositions, or ERCOT Recommendation Oppositions. It is the policy of the Board that important arguments and information relating to a TAC Appeal or a TAC or ERCOT Recommendation Opposition be available to the Board in writing far enough in advance to enable informed decisions on such matters. The Board, and its members, may discount arguments and information that are provided out of time and/or that were not provided to TAC.
- 8.3 Procedural Timeline for TAC Actions Not Designated as Urgent. Written notice of TAC Appeals or TAC Recommendation Oppositions on matters that have not been granted Urgent status as part of the TAC review and recommendation process or that the Board Chair or Vice-Chair or a PUC Commissioner designates as urgent must be submitted to ERCOT’s General Counsel within ten (10) Business Days after the date of the TAC action which serves as the basis for the TAC Appeal or Comments on TAC Recommendation. The Board will hear such matter at the next regularly-scheduled Board meeting that is at least ten (10) Business Days after the date of the TAC Appeal or TAC Recommendation Opposition. The following deadlines will apply to the parties involved:

- 8.3.1 The TAC Chair or Vice-Chair shall designate a TAC Advocate to defend the TAC action at least eight (8) Business Days before the Board meeting.
- 8.3.2 ERCOT shall post notice of the TAC Appeal or TAC Recommendation Opposition, and identify the TAC Advocate on the ERCOT website, and notify TAC of the same, at least seven (7) Business Days before the Board meeting.
- 8.3.3 The party appealing or contesting the TAC recommendation and the TAC Advocate must, and any other interested Entity may, provide a position statement, with or without supporting data, to ERCOT's General Counsel at least six (6) Business Days before the Board meeting.
- 8.3.4 ERCOT will distribute all timely position statements to the Board in the Board Packet as described in Section 1.2 above.

The Board Chair or Vice-Chair may override any deadline in this Section 8.3 for good cause shown.

- 8.4 Expedited Procedural Timeline for Urgent TAC Actions. Notwithstanding Section 8.3, an expedited process shall apply to TAC Appeals or TAC Recommendation Oppositions of: (a) TAC actions related to decisions on items designated as Urgent; or (b) any other TAC action that the Board Chair or Vice-Chair or a PUC Commissioner designates as urgent. Written notice of such TAC Appeals or TAC Recommendation Oppositions must be submitted to ERCOT's General Counsel within forty-eight (48) hours after the end of the relevant TAC meeting and those TAC Appeals or TAC Recommendation Oppositions shall be heard at the next Board meeting, and the TAC Chair and Vice-Chair shall work with ERCOT's General Counsel to preserve the intent of Sections 8.2 and 8.3 above as fully as possible, given that such matters will be heard on less than ten Business Days' notice.
- 8.5 Procedural Timeline for ERCOT Recommendation Oppositions. The process for ERCOT Recommendation Oppositions applies to situations in which the Board agenda includes a voting item that does not require a TAC recommendation before it comes before the Board for a vote. If a party seeks Board consideration of its comments opposing an ERCOT Recommendation for Board action, and requests that ERCOT include the comments in the Board Packet, the party must provide written notice to ERCOT's General Counsel at least ten (10) Business Days before the date of the Board meeting where the issue will be on the agenda and submit its comments with ERCOT's General Counsel at least eight (8) days before the date of the Board meeting where the issue will be on the agenda. If a party seeks to submit comments after the Board Packet has been delivered to Board members, the timing of the publication and distribution of the comments (as well as of any comments supporting the ERCOT Recommendation) will be at the discretion of the Board Chair or Vice-Chair.

IX. Board Policy on Approval of User Fees

- 9.1 User Fees Approval Process. The Board may authorize ERCOT to charge reasonable user fees for services provided by ERCOT to any Market Participant or other Entity. A new user fee must be approved by the Board pursuant to the Revision Request process set forth in Section 21 of the Protocols. User fees charged by ERCOT must be identified in the ERCOT Fee Schedule included in the Protocols.
- 9.2 New User Fee Criteria. The Board retains the full authority to adopt user fees for services provided by ERCOT, including fees currently included in the Protocols, but establishes the following policy guidelines for establishing user fees which are not currently included in the Protocols:
- 9.2.1 Material Impact. A new user fee should produce revenue in excess of \$1,000,000.00 annually, or materially improve ERCOT operations.
- 9.2.2 Incremental Revenues. The revenues recovered by a new user fee should be incremental to revenue recovered through the System Administration Fee.
- 9.2.3 Limited Beneficiaries. A new user fee should be for a service that benefits a relatively few discrete Market Segments or Market Participants rather than providing general benefit to most Market Segments or Market Participants.

X. Procedure for Determination of Affiliate Relationship for Membership

- 10.1 Membership Applicant Procedure. Any applicant for Membership (Membership Applicant) shall follow the procedure in this section to request Board determination of whether entities are Affiliates of one another for the purpose of determining Member Segment and voting rights pursuant to the definition of “Affiliate” in the Bylaws (Article 2, Paragraph 1).
- 10.2 Verified Letter or Affidavit. The Membership Applicant shall send to the Board Chair with a copy to the General Counsel either (1) a letter verified by an authorized representative of the Membership Applicant or (2) an affidavit executed by an authorized representative of the Membership Applicant, requesting Board determination of Affiliate relationship for purposes of the definition of “Affiliate”. The verified letter or affidavit must provide sufficient facts of relevant corporate relationships of the Membership Applicant to allow for the Board’s review of corporate relationships in consideration of the definition of “Affiliate”.
- 10.3 Deadline for Submission. The Membership Applicant must send the verified letter or affidavit to be received no later than the submission date for the Board Packet materials for the Board meeting preceding the Membership application deadline for the following Membership year.

XI. Review and Reaffirmation

- 11.1 Review and Reaffirmation. The Board may amend this document at any time by a vote that complies with Bylaws requirements, but at a minimum the Policies and Procedures shall be reviewed and reaffirmed annually, at or before the annual Strategic Planning Meeting.

APPENDIX C
FINANCE AND AUDIT COMMITTEE CHARTER



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. Evaluate the adequacy and effectiveness of the Company’s risk assessment and mitigation policies and practices;
5. Review and make recommendations to the Board regarding credit standards, procedures, governance, ERCOT Protocols and other market rules which impact credit risk;
6. Ensure that the Company’s financial statements are timely audited by qualified accountants who are independent;
7. Assist the Board in fulfilling its oversight responsibility with respect to the Company’s maintenance of an effective internal audit function;
8. Establish and maintain procedures for the receipt (including anonymous submission), retention and treatment of complaints regarding accounting, internal controls, and auditing;
9. 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. The Committee shall review management's annual report on the adequacy and effectiveness of the Company's internal controls in a timely manner.

With respect to risk management policies and practices:

1. The Committee shall review the Company's policies with respect to risk assessment and risk management.
2. The Committee shall inquire of management about significant risks to the Company and assess the steps management has taken to minimize such risks, including financial, operational, credit, cyber-security, and information technology risks.

With respect to budget oversight and financing:

1. Annually or biennially, the Committee shall review staff's proposed budget for the following year(s).



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(s).
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:

1. Annually, the Committee shall recommend to the Board the selection and engagement of qualified independent public accounting firms to:
 - a. Perform audit of ERCOT's financial statements. 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.
2. Establish the Company's policies relating to the solicitation and engagement for independent audit services.
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.

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.
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.
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.
7. The Committee shall also review any report by the independent auditor describing:
 - a. Significant accounting policies and practices used by the Company;
 - b. Alternative treatments of financial information as required to be discussed by the independent auditors with the Committee; and
 - c. 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:

1. The Committee shall discuss the annual audited financial statements with management and the independent auditor, including the Company's disclosures.
2. The Committee shall review disclosures made to the Committee by the Company's CEO and Vice President and Chief Financial Officer 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.
3. 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.
4. Review major changes to the Company's auditing and accounting principles and practices as suggested by the independent auditor, internal auditors or management.
5. 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.
6. 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.
7. 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.



8. 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 Company's annual SSAE 16 and 401(k) Savings Plan audits:

1. As necessary, before and during audit fieldwork, the Committee shall discuss with management and the independent auditor the planning and execution of the audit.
2. Based on its review and discussions with management and the independent auditor, the Committee shall provide a recommendation to the Board whether the 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 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.
4. The Committee shall review a summary of the Company's dealings with any financial institutions that are also market participants.
5. 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.
6. 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 and Chief Financial Officer, 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.

APPENDIX D
FINANCIAL CORPORATE STANDARD

ERCOT CORPORATE STANDARD

Document Name:	Financial Corporate Standard
Document ID:	CS3.1
Effective Date:	February 27, 2015
Owner:	Board of Directors, Finance & Audit Committee
Governs:	ERCOT Personnel
Approved:	Board of Directors, Finance & Audit Committee

1. PURPOSE

This financial Corporate Standard is a framework from which ERCOT's financial integrity will be maintained while serving the long-term interests of the company and the ERCOT market. ERCOT recognizes that maintaining financial integrity is critical to accomplishing its corporate goals and discharging ERCOT's primary responsibilities.

2. DEFINITIONS

Acronyms & Terms	Definition and Description
Budget	The Budget consists of Project Budgets and an Operating and Maintenance Budget.
Project Budgets	Project Budgets consist of proposed expenditures to be made to develop capital assets during ERCOT's Fiscal Year. Any significant projects not included in the approved project budgets will be presented to ERCOT's Board of Directors for approval as they arise.
Cash Operating and Maintenance Expenses	Cash Operating and Maintenance Expenses consist of all reasonable and necessary costs (excluding non-cash items such as depreciation and amortization) incurred in the operation and maintenance of ERCOT's facilities, equipment and systems.
Fiscal Year	ERCOT's fiscal year is January 1 st through December 31 st .
NERC	North American Electric Reliability Corporation, the entity currently certified as the Electric Reliability Organization by the Federal Energy Regulatory Commission ("FERC").
Operating and Maintenance Budget	The Operating and Maintenance Budget consists of all reasonable and necessary costs expected to be incurred during ERCOT's Fiscal Year.
Scheduled Debt Service	Scheduled Debt Service is all interest and mandatory principal payments due on ERCOT's outstanding indebtedness (both long-term and short-term) for a stated period.
Strategic Financial Plan	The Strategic Financial Plan will provide current financial information and a five-year projection, which addresses all sources of revenues, including any proposed fee adjustments. It will include projections of operating and maintenance expenses, project expenditures, the funding sources of project expenditures, and debt service requirements as well as the resulting capital structure.
CRR	Congestion Revenue Rights

3. FINANCIAL OBJECTIVES

In seeking to fulfill its corporate objectives, ERCOT will maintain a high level of financial stability and will not compromise long-term financial integrity to achieve short-term benefits.

Strategic Financial Plan and Budget - Prior to or in conjunction with the submission of the Budget, the Vice President and Chief Financial Officer or Controller will submit an update to the Strategic Financial Plan.

The Budget will be substantially consistent with the Strategic Financial Plan and will be submitted to the Board with sufficient time for the review and approval prior to the beginning of the Fiscal Year.

In developing the Strategic Financial Plan and Budget, ERCOT staff will work to ensure that financial ratios required for compliance with debt instruments are maintained.

ERCOT will pursue financial objectives that will allow it to maintain an investment grade debt rating with Standard & Poor's, Moody's or Fitch. If a rating below investment grade is received or expected to be received, staff will promptly recommend a plan for Board consideration to recover or maintain the targeted rating within 18 months.

Overall, the Strategic Financial Plan and the related Budget will seek to assure ERCOT's financial stability. They will be approved by the Board and will guide ERCOT's financial planning process.

Fees and Charges - ERCOT will assess fees consistent with the ERCOT Protocols and Public Utility Commission of Texas rulings. ERCOT will also collect fees on behalf of the Electric Reliability Organization as approved by FERC. Fees, funding, and charges will be requested to recover the Board-approved Operating and Maintenance Budget (excluding depreciation and amortization), Scheduled Debt Service (less any principal payments reasonably expected to be refinanced), and the portions of Project Budgets that are to be self-funded. Fee adjustments, if necessary, will generally be developed and proposed in connection with ERCOT's annual Budget.

ERCOT will use all reasonable means to operate within the approved Budget for the current year. When unforeseen events occur (e.g., MWh's are significantly over or under projected levels, functionality is added or removed, etc.) and as a result, ERCOT experiences or expects to experience in the next 12-month period any overspending of the Budget or under collection of revenue, or more than a 5 percent under spending of the Budget or over collection of revenue, staff will promptly recommend a plan for Board consideration, which may include cost reductions or additions, fee increases or decreases, or other means to ensure that approved functions can be maintained, capital expended and expenses paid in the normal course of business.

Sources of Financing - ERCOT may use a combination of equity (self-funding) and debt to finance current year Project Budgets. In determining the combination of equity and debt to be used, ERCOT will consider the impact of the current year decision on future years,

but in no event will ERCOT propose to self-fund less than 40 percent of Project Budgets during the project development phase.

Generally, ERCOT will structure debt issues such that the average maturity of the debt does not exceed the average life of the assets financed; however, debt issues may be structured with a longer or shorter average maturity if economically justified.

ERCOT may use variable-rate debt to provide flexibility in its overall financing program and to manage its overall interest rate exposure. However, in no event will ERCOT allow un-hedged, variable rate debt to be more than 40 percent of total debt outstanding.

ERCOT will periodically evaluate the interest rate environment and review ways to manage interest rate exposure within that environment.

As appropriate, ERCOT will periodically evaluate mechanisms to restructure or refinance debt. ERCOT will regularly evaluate alternatives to conventional financing to obtain the lowest overall cost of borrowing while still meeting the objectives of this financial Corporate Standard.

Liquidity - ERCOT will seek to maintain adequate liquidity to meet its business needs. Liquidity is the combination of available 1) operating cash on hand, 2) operating cash equivalents / short term investments and 3) undrawn borrowing capacity under credit facilities.

ERCOT's targeted minimum level of liquidity will factor in: 1) six months of forecasted Scheduled Debt Service, other than principal payments reasonably expected to be refinanced, 2) two months of average Cash Operating and Maintenance Expenses, net of projected administrative fee receipts, 3) two months of budgeted project expenditures, and 4) to the extent CRR auction revenues have been utilized to fund ERCOT working capital and project expenditure needs, two months of estimated CRR repayment obligations expected to be paid, net of projected CRR auction receipts during the same period.

If at any time ERCOT's liquidity is less than or is expected to be less than the targeted minimum level set forth in this Corporate Standard, staff will promptly recommend a plan for Board consideration to achieve the liquidity target within six months.

Funds received in conjunction with CRR auctions may be utilized to fund ERCOT working capital and project expenditure needs so long as liquidity is at or above the target levels and ERCOT's issuer rating remains investment grade. These funds may be utilized in place of borrowing under short term credit facilities to meet liquidity needs.

4. RESPONSIBILITIES

It is the responsibility of the Chief Executive Officer and Vice President and Chief Financial Officer to ensure that this Corporate Standard is implemented appropriately and to recommend changes in the Corporate Standard as needed.

5. FINANCIAL STANDARD ADOPTION

ERCOT's Financial Corporate Standard was adopted by resolution of the Board of Directors. The Corporate Standard will be reviewed annually by the Finance and Audit Committee and any modifications made thereto must be approved by the Board of Directors.

APPENDIX E
PUC SUBSTANTIVE RULE 25.363

CHAPTER 25. SUBSTANTIVE RULES APPLICABLE TO ELECTRIC SERVICE PROVIDERS

Subchapter O. UNBUNDLING AND MARKET POWER.

DIVISION 2. INDEPENDENT ORGANIZATIONS.

§25.363. ERCOT Budget and Fees.

- (a) **Scope.** This section applies to the budget of and all fees and rates levied or charged by the Electric Reliability Council of Texas (ERCOT) in its role as an independent organization under PURA §39.151.
- (1) A fee or rate that was in effect on the effective date of this section shall remain in effect and shall not be changed, except as provided in this section.
 - (2) ERCOT shall not implement any new or modified budget, rate or fee without commission approval, except as otherwise provided by this section.
 - (3) ERCOT shall not incur expenses or capital outlays in any year that exceed the amounts approved by the commission, except in the case of an emergency that impairs its ability to conduct its functions.
 - (4) ERCOT shall not incur debt, defer scheduled principal repayments of debt, or refinance existing debt without commission approval. ERCOT shall seek approval of any loan or agreement to provide a line of credit from a bank or other institution, the issuance of bonds or notes, and any arrangements that would permit it to issue bonds or permit the issuance of bonds on its behalf at a later date. The commission may approve, disapprove, or modify a proposal made pursuant to this paragraph. This paragraph does not require approval of a contract to lease equipment or other property used in normal operations, approval of a loan or draw on an existing line of credit or other credit arrangement that has been approved by the commission, or renewal of an existing working capital line of credit that has been approved by the commission.
- (b) **System of accounts and reporting.** For the purpose of accounting and reporting to the commission, ERCOT shall maintain its books and records in accordance with Generally Accepted Accounting Principles. ERCOT shall establish a standard chart of accounts and employ it consistently from year to year. The standard chart of accounts shall be used for the purpose of reporting to the commission and shall be consistent with the long-term operations plan prescribed by §25.362 of this title (relating to Electric Reliability Council of Texas (ERCOT) Governance). The accounts shall show all revenues resulting from the various fees charged by ERCOT and reflect all expenses in a manner that allows the commission to determine the sources of the costs incurred for each major activity conducted by ERCOT.
- (c) **Allowable expenses.** Expenses and capital outlays in the budget shall be based upon ERCOT's expected cost of performing its required functions as described in PURA §39.151(a) and this chapter. To determine whether the costs are reasonable and necessary, the commission may consider the budget justification provided by ERCOT, the ERCOT long-term operations plan, costs incurred by market participants and other independent system operators for similar activities, costs incurred in prior years, capital projects identified in the budget, and to any other information and data considered appropriate by the commission.
- (1) Only those expenses that are reasonable and necessary to carry out the functions described in PURA §39.151 and this chapter shall be included in allowable expenses.
 - (2) Allowable expenses, to the extent they are reasonable and necessary, may include, but are not limited to, the following general categories:
 - (A) Operating expenses, which include salaries and related benefits, direct advertising for the specific purpose of recruiting employees, legal and consulting services, hardware and software maintenance and licensing, insurance, employee training and travel, and depreciation;
 - (B) Facility and equipment costs, and other long-lived investments;

CHAPTER 25. SUBSTANTIVE RULES APPLICABLE TO ELECTRIC SERVICE PROVIDERS

Subchapter O. UNBUNDLING AND MARKET POWER.

DIVISION 2. INDEPENDENT ORGANIZATIONS.

- (C) Debt service (interest plus principal reduction) and other reasonable and necessary costs of capital to fund investments in property and facilities, and other capital expenditures that are used and useful in performing the functions of an independent organization;
 - (D) Expenses associated with fees and dues charged by organizations setting electric or energy business practices and communications standards (*e.g.*, North American Electric Reliability Council, North American Energy Standards Board, and ISO/RTO Council) of which ERCOT is a member; and
 - (E) Actual expenditures for public service announcements and community education efforts.
- (3) The following are not allowable as a component of expenses:
- (A) Legislative advocacy expenses, whether made directly or indirectly;
 - (B) Funds expended in support of political candidates, movements or causes;
 - (C) Funds expended promoting religious causes;
 - (D) Funds expended in support of or in acquiring membership in social, recreational, or fraternal clubs or organizations;
 - (E) Funds expended for advertising, marketing, or other promotions, which includes, but is not limited to:
 - (i) promotional goods;
 - (ii) efforts to increase name recognition;
 - (iii) radio, television, newspaper or other media advertising; except as otherwise expressly authorized; and
 - (F) Any expenditure found by the commission to be unreasonable, unnecessary, not in the public interest, or not sufficiently supported by the fee-filing package and accompanying evidence.
- (d) **Budget Submission.** ERCOT shall submit its proposed budget for commission review as specified in the commission order approving its previous budget. As part of its application for approval of its proposed budget, ERCOT shall include all information necessary for the commission to evaluate the proposed budget, including all information required under this section. The commission shall provide public notice of ERCOT's proposed budget and allow a reasonable opportunity for the public to comment on the ERCOT's proposed budget. The review and approval of a proposed budget or a proceeding to authorize and set the range for the amount of the fee under this section is not a contested case for purposes of Chapter 2001 of the Texas Government Code.
- (e) **Commission review and action.** The ERCOT annual budget and any change in the system administration fee are subject to review by the commission either annually or biennially, at the commission's discretion. Prior to the submission of a proposed budget or change in the system administration fee to the governing board for its approval, ERCOT shall consult with commission staff designated by the executive director in connection with the development of the budget and shall provide to the staff information concerning budget strategies, staffing requirements, categories of expenses, capital outlays, exceptional expenses and capital items, and proposals to incur additional debt. ERCOT shall file with the commission its board-approved budget, budget strategies, and staffing needs, with a justification for all expenses, capital outlays, additional debt, and staffing requirements. The commission may approve, disapprove, or modify any item included in the proposed budget and budget strategies. After approving ERCOT's budget, the commission shall authorize ERCOT to charge a system administration fee, within a range determined by the commission, that is reasonable and competitively neutral to fund ERCOT's budget. ERCOT shall closely match actual revenues generated by the system administration fee and other sources of revenue with revenue necessary to fund the budget, taking into account the effect of a fee change on market

CHAPTER 25. SUBSTANTIVE RULES APPLICABLE TO ELECTRIC SERVICE PROVIDERS

Subchapter O. UNBUNDLING AND MARKET POWER.

DIVISION 2. INDEPENDENT ORGANIZATIONS.

participants and consumers, to ensure that the budget year does not end with a surplus or insufficient funds. Any change to the fee approved by the commission or made during the course of an annual or biennial budget cycle will be noticed through standard market processes at least 45 days before implementation. ERCOT shall file with the commission, upon request, a report comparing actual expenditures with budgeted expenditures. Such reports shall be filed at least once per year.

- (f) **Performance measures.** ERCOT shall develop proposed performance measures to track its operations. Such measures shall be submitted for commission review and approval at the time ERCOT submits its proposed budget. ERCOT shall provide an explanation for any performance measure whose value for any of the preceding three calendar years was not within 5% of the commission-approved target. The commission will review ERCOT's performance as part of the budget review process. The commission shall prepare a report evaluating ERCOT's performance at the time the commission approves ERCOT's budget and shall submit the report to the Lieutenant Governor, the Speaker of the House of Representatives, and each house and senate standing committee that has jurisdiction over electric utility issues.

- (g) **User Fees.** ERCOT may charge reasonable user fees for services provided by ERCOT to any market participant or other entity. User fees do not include the system administration fee and the ERCOT nodal implementation surcharge. A new or revised user fee may be approved by the ERCOT governing board. Any affected entity, including the commission staff and the public counsel, may file an appeal of the establishment or revision of a user fee, in accordance with §22.251 of this title (relating to Review of Electric Reliability Council of Texas (ERCOT) Conduct), except that the provisions of §22.251(c) of this title (which requires the use of Section 20 of the ERCOT Protocols (Alternative Dispute Resolution Procedures), or Section 21 of the Protocols (Process for Protocol Revision), or other Applicable ERCOT Procedures) shall not apply.