



MEMORANDUM

To: Finance & Audit (F&A) Committee
From: Jonathan Levine, ERCOT Senior Corporate Counsel
Date: December 2, 2019
Re: Item 6 – Annual Committee Self-Evaluation Survey Results

At the October 7, 2019 F&A Committee meeting, Committee members were encouraged to complete and submit the Annual Committee Self-Evaluation Survey.

Attached are the Annual Committee Self-Evaluation Survey results for the Committee's consideration.

| ERCOT Finance & Audit Committee Annual Self-Evaluation (2019) | | Yes | No | Not Sure | Comments |
|--|--|-----|----|----------|--|
| 1. | Does the committee have the appropriate number of members? The committee should not be so large that: <ul style="list-style-type: none">▪ its ability to operate efficiently and effectively is reduced▪ members' ability to raise issues is hampered▪ it is difficult to get a quorum when a time-sensitive issue arises | 11 | | | |
| 2. | Committee members demonstrate their objectivity during meetings through behaviors such as driving agendas, rigorous probing of issues, consulting with other parties, and hiring experts, as necessary. | 9 | | 2 | I don't recall that we have ever considered hiring an expert but I do think Committee members ask probing questions. Discussions regularly reflect the Committee's diversity of opinions and experiences and focus on what benefits ERCOT and the overall market. |
| 3. | Differences of opinion on issues are resolved to the satisfaction of the committee. | 9 | | 2 | |
| 4. | Committee members challenge the Chair as appropriate. | 9 | | 2 | I think the Committee Chair does a very nice job. Good preparation and helpful direction and guidance to the rest of the Committee. |
| 5. | The committee charter is used as a document to guide the committee in its efforts, and to help guide the committee's agenda. | 9 | | 2 | I believe we clearly operate within the charter. I don't recall that we refer to it very often. The charter does guide the Committee's work and the annual charter review allows the Committee to adjust its focus if required as situations evolve. |
| 6. | Committee members are financially literate, and the committee has determined that it has adequate financial expertise in accordance with its charter. | 10 | | 1 | |

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|--|--|----|-----|----|----------|--|
| 7. | Committee members participate in some form of continuing education to stay abreast of changes in the financial accounting and reporting, regulatory and ethics areas. | 8 | 1 | 2 | | <p>Thank you to ERCOT management/staff for providing training and information</p> <p>The educational sessions offered by ERCOT have been quite helpful and on point this year.</p> <p>I really like the recent education sessions for the committee and the board - they have been relevant and informative.</p> |
| 8. | The committee understands how the organization's performance compares with its budgetary targets and its peers, and how management plans to address any unfavorable variances. | 11 | | | | |
| 9. | The committee discusses the initial selection of or changes in significant accounting policies used in developing the financial statements, the reason for and impact of any changes in policy, and reasons alternative treatments were not adopted. | 9 | | 2 | | |
| 10. | The committee discusses significant, complex, or unusual transactions with management and the external auditors. | 10 | | 1 | | |
| 11. | The committee understands which areas represent high risk for material misstatement of the financial statements, and discusses assumptions and approaches used with management and the external auditors. | 10 | | 1 | | |
| 12. | The committee forms its own view of the risk of material misstatement due to fraud, discusses with management and the external auditors their views on the risk of material misstatement due to fraud, and is comfortable that any differences in views can be reconciled. | 10 | | 1 | | |
| 13. | The committee fully understands significant changes in financial statements from prior years and from budget, and is provided with sufficient, reliable evidence to support variances. | 10 | | 1 | | <p>Overall, I think the Committee members are well informed, prepared for discussion at our meetings, and provide thoughtful comments and oversight to ERCOT management.</p> <p>Staff does a great job in this area.</p> |

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|--|---|----|-----|----|----------|---|
| 14. | The committee commits sufficient time to review, discuss, and consider the financial statements. | 9 | | 2 | | |
| 15. | The committee makes optimum use of the meeting time allotted. | 10 | | 1 | | |
| 16. | The committee meets with financial management to discuss results when reported. | 10 | | 1 | | |
| 17. | Committee members have a clear understanding of ERCOT's debt structure and cash management practices. | 9 | | 2 | | |
| 18. | Committee members receive sufficient details regarding long-term financial planning. | 10 | | 1 | | |
| 19. | The committee makes appropriate use of the Credit Work Group and other workgroups or task forces to investigate issues defined by the committee. | 9 | | 2 | | <p>This is an important area and the committee regularly uses the Credit Work Group to ensure these credit risks are adequately addressed.</p> <p>We may actually be hearing from the Credit Working Group, more often than is necessary. Although it is called a periodic update from the CWG it occurs at nearly every meeting.</p> |
| 20. | The committee engages outside experts as appropriate. | 10 | | 1 | | |
| 21. | The organization's financial reporting processes are stronger as a result of management's interactions with the committee. | 10 | | 1 | | I hope so. |
| 22. | The committee understands and agrees with the board on which categories of internal control it oversees. Categories include: <ul style="list-style-type: none"> ▪ Integrity of financial reporting ▪ Compliance with laws and regulations ▪ Operational efficiency and effectiveness | 10 | | 1 | | |

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|--|---|-----|----|----------|---|
| 23. | The committee and the board concur with any changes to the committee's internal control oversight mandate. | 10 | | 1 | |
| 24. | The committee understands the current high-risk areas in the categories of controls it oversees, as well as how management addresses those areas. | 9 | | 2 | The Risk Management program is focused and well explained. |
| 25. | The committee is cognizant of the line between oversight and management, and endeavors to respect that line. | 10 | | 1 | |
| 26. | The committee conducts executive sessions in a manner that offers a "safe haven" to the individual, while at the same time asking tough and necessary questions, evaluating the answers, and pursuing issues that might arise to a satisfactory resolution. | 10 | | 1 | I believe ERCOT staff feels safe discussing matters with us and I have never had any concern about CEO or Senior Management stifling interaction or discussion. |
| 27. | The committee does its part to ensure the objectivity of the internal audit team. | 10 | | 1 | |
| 28. | The committee provides constructive feedback to the chief audit executive at least annually. | 10 | | 1 | |
| 29. | The committee receives sufficient detail regarding material issues and complaints brought forward which relate to the company's fraud, ethics or accounting practices. | 9 | | 2 | |
| 30. | The committee has developed the scope of work to be done by the independent auditor and by the internal audit department based upon a reasoned review of the risks or exposures to the company. | 10 | | 1 | |
| 31. | The committee communicates at an appropriate level of detail when informing the Board of its actions. | 11 | | | I believe it is very helpful for members of other committees to attend F&A Committee meetings when they can. I appreciate their interest and willingness to spend time on F&A issues. |
| 32. | Committee members receive clear and succinct agendas and supporting written material sufficiently prior to scheduled meetings. | 11 | | | |

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|--|--|-----|----|----------|---|
| 33. | Committee members have adequate opportunities to discuss issues and ask questions. | 11 | | | |
| 34. | The frequency of committee meetings is appropriate for the responsibilities assigned to the committee. | 11 | | | |
| 35. | Meeting facilities and presentation materials are effective for the conduct of committee activities. | 11 | | | |
| 36. | The committee is efficient and value adding. | 11 | | | |
| 37. | Please add additional comments, questions and suggestions here. | 8 | 2 | 1 | <p>Kudos to Financial team, Internal Audit and CEO/Legal for their support of the Committee and their informed reports.</p> <p>I am very impressed with the work of the F&A Committee to ensure staff is questioned about critical risk and financial issues. The Committee functions very well and is efficient by spending its time on critical functions dictated by its charter. The Committee adds significant value overseeing its responsibility of the ERCOT market. Given I am an alternate director I am able to observe more than participate providing a unique perspective on the Committee's performance.</p> <p>My responses are from the perspective of limited feedback from a committee member and the reports made to the board of directors. I cannot provide responses with regard to the specifics of the committee because I am not an active committee member, only an alternate on an as needed basis and so have yet to attend a committee meeting.</p> |

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|--|--|-----|----|----------|---|
| | | | | | <p>I appreciate that the Committee consistently seeks to improve or adjust the reporting of financial information to enhance understanding at both the Committee and Board levels. The interaction with management in this process also helps to define the Committee's direction or concerns on specific topics within its oversight role.</p> <p>I am an alternate and thus, have only participated in one meeting.</p> |