

March 4, 2021

*Via Electronic Delivery:* [carol.alvarado@senate.texas.gov](mailto:carol.alvarado@senate.texas.gov)

The Honorable State Senator Carol Alvarado  
Capitol Office  
P.O. Box 12068  
Austin, Texas 78711

Re: Request for Information Regarding ERCOT Expenditures for Travel & Compensation, dated February 23, 2021

Dear Honorable Senator Alvarado:

Bill Magness, ERCOT President and Chief Executive Officer (CEO), forwarded your request for information regarding ERCOT expenditures for travel, conferences, and compensation for executives and the Board of Directors (Board) to me for response.

You have my personal commitment and that of ERCOT staff to cooperate fully and transparently with you, other members of the Texas Legislature and the Public Utility Commission of Texas (Commission or PUCT) in order to fulfill Governor Greg Abbott's declaration to reform ERCOT as an emergency item for this legislative session.

ERCOT intends to provide you with the information that you have requested as soon as reasonably possible to allow you to conduct your review of ERCOT in a timely fashion. Please let this serve as ERCOT's preliminary response to your request for information. ERCOT staff will continue to work on your request diligently on an ongoing basis, but wanted to provide you with initial information to allow your office to begin your review. I can assure you that ERCOT staff has been working on responding to your request and that of other legislators, the U.S. Congress, federal and state regulators and authorities, media and the public every single day for greatly extended hours since the inception of the recent extreme winter weather event while also conducting their other essential work duties.

In the interest of transparency, ERCOT will be posting a copy of this response to its public website.

#### Current Corporate and Tax-Exempt Status

By way of background, ERCOT is organized as a Texas non-profit corporation with members and without capital stock and is designated by the Internal Revenue Service (IRS) as a Section 501(c)(4) tax-exempt organization, specifically a social welfare organization. ERCOT operates

exclusively for the promotion of social welfare through its primary activities established by Public Utility Regulatory Act (PURA) Section 39.151. ERCOT fulfills the U.S. Internal Revenue Code Section 501(a) tax-exempt organization requirements for a social welfare organization, that is, lessening the burdens of government and promoting the common good and general welfare of the community.

ERCOT lessens the burdens of government and provides a benefit to the entire community by performing the following four functions of an independent organization required by the Texas Legislature pursuant to PURA Section 39.151(a):

- (1) Ensuring access to the transmission and distribution systems for all buyers and sellers of electricity on non-discriminatory terms;
- (2) Ensuring the reliability and adequacy of the regional electrical network;
- (3) Ensuring that information relating to a customer's choice of a retail electric provider is conveyed in a timely manner to the persons who need that information; and
- (4) Ensuring that electricity production and delivery are accurately accounted for among the generators and wholesale buyers and sellers in the region.

ERCOT ensures electricity reliability through its activities as the Independent System Operator (ISO) for the ERCOT region in the State of Texas. An ISO is an independent third-party entity that oversees the activities related to the reliable and secure transmission of electricity within a specified geographic area. As an ISO, ERCOT bolsters the ERCOT region's electricity reliability and security through managing the scheduling of power on the electric grid.

ERCOT originally became an ISO in response to deregulation of the wholesale electricity generation market by the 1995 Texas Legislature. ERCOT then expanded its activities to the impartial coordination of access to the power grid among the various power companies. The overall purpose for this expanded role as a coordinator was to ensure electric reliability and security. ERCOT's role changed again with the May 27, 1999 passing of Senate Bill 7 (PURA), which allowed most Texas retail electric consumers to choose their electric provider. In April 2000, the Commission certified ERCOT as the independent organization for the ERCOT region to perform the functions required by PURA. PURA Section 39.151(b) defines "independent organization" as:

An independent system operator or other person that is sufficiently independent of any producer or seller of electricity that its decisions will not be unduly influenced by any producer or seller.

ERCOT has continued to serve the function as an ISO and independent organization to date.

### ERCOT Responses to Your Requests and Offer to Enter Confidentiality Agreement

ERCOT provides the following initial responses to your requests. I look forward to working with you in providing you with the information that you need to perform your review of ERCOT.

To the extent that you would like to review any information identified as confidential in any of ERCOT's responses below, ERCOT will produce such confidential information with the execution of a confidentiality agreement pursuant to Texas Government Code Section 552.008.

## 1. Reimbursement of Travel Expenses

- 1.1 – Your Request:

ERCOT's policies and procedures for approving or denying expenditures or reimbursement requests related to travel, indicating whether separate policies and procedures exist for board members and employees.

1.1 – ERCOT Response:

ERCOT Board members and employees are both subject to the same attached ERCOT Corporate Standard CS3.5, Business Expense Reimbursement Corporate Standard; however, the Unaffiliated Directors are generally the only Board members who submit expense reimbursement requests. On very rare occasion, a Director representing one of the subsegments of the Consumer Segment may submit an expense reimbursement for travel related to an ERCOT-related conference.

In addition, Section 2.8.2 (Expense Reimbursement) of the attached ERCOT's Board Policies and Procedures provides the following:

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.

- 1.2 – Your Request:

The total number of travel-related expenditures and requests for reimbursement submitted, approved or denied by ERCOT, broken out by employee or board member.

- 1.3 – Your Request:

For each travel-related expenditure or request for reimbursement paid for by ERCOT or reimbursed to an ERCOT employee or board member, please provide a breakout for each employee or board member, including the purpose of the travel, mode of travel, cost, class of travel and destination and origin point for each leg of trip.

- 1.4 – Your Request:

If any expenditure or request for reimbursement relates to travel for board members who reside outside the state of Texas or United States, please specifically indicate the name of the board member, the total number of travel related expenditures or requests for reimbursement made for or by the board member, the cost of each trip, the mode of travel, class of travel and destination and origin point for each leg of the trip.

1.2, 1.3 and 1.4 – ERCOT Response:

Attached is a spreadsheet for travel expenses that provides some detail regarding type of travel expense without including identifying information, such as employee name, due to confidentiality and safety concerns. ERCOT respects your request for employee names, but has excluded them in this preliminary response in the interest of protecting employees on account of numerous serious threats that have been received recently.<sup>1</sup> Board members have been regularly identified by name in the media, and accordingly their names are included. Please let ERCOT know if you still want employee names with respect to this area of requested information.

With regard to the breakout of this information by employee or Board member as you requested, please note that ERCOT's electronic system of record, Workday, identifies the cost by "category," which we have provided. Categories are as follows:

- (1) Lodging
- (2) Airfare
- (3) Business meals
- (4) Mileage Reimbursement
- (5) Personal Meals
- (6) Ground Transportation
- (7) Fuel Oil
- (8) Car Rental
- (9) Parking
- (10) Vehicle Maintenance
- (11) Gasoline
- (12) Board Non-Taxable Expenses
- (13) Other Employee Expenses
- (14) Remote System Access

The purpose of travel for each individual trip is ascertained at the time of the approval of the expense report. This information, along with class of travel, destination and origin point will require opening each expense report manually. Please let me know if you still want to proceed with this request as stated. If so, ERCOT will need to either substantially delay its

---

<sup>1</sup> See, e.g., Tex. Gov't Code § 552.152 (information in custody of governmental body that relates to employee or officer of governmental body is excepted from disclosure if, under circumstances pertaining to employee or officer, disclosure would subject employee or officer to substantial threat of physical harm).

response or hire temporary staff to accommodate this request on account of the need for current staff to conduct their other essential work duties.

## **2. Expense Reimbursements for Conferences, Conventions, and Meetings**

- **2.1 – Your Request:**

ERCOT's policies and procedures for approving or denying expenditures or reimbursement requests related to conferences, conventions and meetings and indicate whether separate policies and procedures exist for board members and employees.

**2.1 – ERCOT Response:**

Please see ERCOT's Response to Request 1.1.

- **2.2 – Your Request:**

The total number of expenditures and requests for reimbursement submitted, approved or denied by ERCOT, broken out by employee or board member.

- **2.3 – Your Request:**

For each conference, convention or meeting related expenditure or request for reimbursement paid for by ERCOT or reimbursed to an ERCOT employee or board member, please provide a breakout for each employee or board member, including but not limited to the purpose of the attendance at the event, cost of attendance, time and date of the event, cost and place of lodging and any and all food and beverage related costs ultimately paid for or reimbursed by ERCOT.

- **2.4 – Your Request:**

For each event, please provide a brief justification describing how attendance by the ERCOT employee or board member furthered ERCOT's mission of "serv[ing] the public by ensuring a reliable grid, efficient electric markets, open access and retail choice."

**2.2, 2.3 and 2.4 – ERCOT Response:**

Attached is a spreadsheet for travel expenses that provides some detail regarding conference, convention, and meeting expenses. This includes a summary of costs and supporting detail by type, broken into the following categories:

- (1) Professional Fees – Training: This category is, to the best of ERCOT's knowledge, comprised of only onsite training provided to ERCOT staff.
- (2) Registration Fees: The majority of this category is for offsite training used to keep staff up-to-date with current practices and trends, strengthening and expanding staff skills and knowledge needed to work effectively against a backdrop of ever-changing cyber security, information technology and engineering knowledge bases.

- (3) Operator Training: This category is for training conducted by ERCOT for operations staff for ERCOT and Market Participants.
- (4) Black Start Training: This category is for training conducted by ERCOT for operations staff for ERCOT and Market Participants.
- (5) Market Meetings: This category is for market meeting expenses incurred for meetings with external parties such as Market Participants.
- (6) Corporate Events: This category consists of ERCOT staff events sponsored by the Human Resources Department (the per-headcount spend is approximately \$70 per employee).

With respect to information on individual conferences, conventions and meetings, for onsite spending, expenditure information is provided by cost center rather than employee. Gathering detailed information in this category by individual employee will require significant manual work to tie class attendance to each spend item for onsite training. For offsite spending, all employee conference and training expenses for offsite travel are captured and provided in this response. Additional manual work will be required to tie registration fees for training and conferences to individual employee expense reimbursements. Employee names have not been provided, as discussed in ERCOT's Response to Requests 1.2 – 1.4 above.

Gathering information regarding breakout by employee and Board member, such as the cost beyond the registration fees covered in an expense report, the time and date of the event, the cost and place of lodging, and any and all food and beverage related costs, will require opening each expense report manually, as will gathering the information necessary to provide a brief justification describing how attendance by the ERCOT employee or board member furthered ERCOT's mission of "serv[ing] the public by ensuring a reliable grid, efficient electric markets, open access and retail choice."

Please let me know if you still want to proceed with this request as stated. If so, ERCOT will need to either substantially delay its response or hire temporary staff to accommodate this request on account of the need for current staff to conduct their other essential work duties.

### **3. ERCOT CEO Compensation**

- 3.1 – Your Request:  
ERCOT's policies and procedure for determining [ERCOT CEO] salary.

#### 3.1 – ERCOT Response:

##### Required Process and Standard Practice

ERCOT complies with Commission rules and its Bylaws (as approved by the Commission) with regard to the approval of ERCOT CEO compensation. PUCT Substantive Rule 25.362(h) provides that "[c]ompensation to be paid to the ERCOT chief executive offer

shall be subject to commission review and approval.” Section 7.4 of the attached ERCOT Bylaws provides that the ERCOT Board shall approve the CEO’s compensation.

Accordingly, in determining CEO compensation, the ERCOT Board of Directors (with the exception of the ERCOT CEO) approves all new CEO compensation and employment terms or revisions thereto, upon recommendation by the Human Resources and Governance (HR&G) Committee for approval pursuant to the attached HR&G Committee Charter. The Board and HR&G Committee obtain and rely upon appropriate data for comparability and the Commission reviews any compensation proposed to be paid to the ERCOT CEO. The HR&G Committee can request information from independent compensation consultants on other ISOs and Regional Transmission Organizations (RTOs) or obtain information from IRS Form 990s and other sources. Review of CEO compensation is performed annually except in those instances in which the compensation has been determined pursuant to the provisions of an employment agreement between ERCOT and the CEO for a term exceeding a year, as any such agreement has been approved by the Board and documented.

#### Development of Current CEO Compensation

In August 2015, the HR&G Committee requested that the Board Chair, in consultation with the HR&G Committee Chair, and with the review of the Commission, assess market data from comparable organizations to develop recommendations for proposed ERCOT CEO compensation for Bill Magness.

Consistent with ERCOT’s practices for analyzing and determining compensation for all its executive positions, an independent consultant provided data from the other ISOs and industry market data from the confidential Willis Towers Watson and Mercer LLC salary subscription databases. The compensation reviewed was Total Cash Compensation, inclusive of base salary and bonus payments. Information from these databases is confidential pursuant to the terms of the associated vendor contract.

In October 2015, the ERCOT Board and HR&G Committee Chairs reported to the HR&G Committee the final proposed CEO compensation recommendation to the HR&G Committee. The HR&G Committee Chair reported the Commission had also reviewed the compensation terms and agreed that they were reasonable. The ERCOT Board of Directors accepted and approved Mr. Magness’ three-year employment terms as CEO.

In 2018, Mr. Magness’ three-year employment contract was nearing the end of its term. The HR&G Committee reviewed a chart illustrating Mr. Magness’ total compensation over the next five years. The information was prepared by ERCOT Human Resources staff after review of information for similarly situated CEOs and was discussed with each of the Commissioners from the PUCT. The ERCOT Board of Directors accepted and approved the five-year compensation recommendation from the HR&G Committee.

- 3.2 – Your Request:

The total number of compensation increases [the ERCOT CEO has] received since 2010, including dollar amount and percentage for each increase.

3.2 – ERCOT Response:

Please see the attached public IRS Form 990s filed by ERCOT for the years 2010 to 2019. For ease of reference, a spreadsheet reflecting the increases in Mr. Magness' compensation since 2010 is attached. As a point of reference, please note that Mr. Magness was originally employed by ERCOT as Vice President, General Counsel and Corporate Secretary and was not promoted to the position of CEO until 2016. The IRS Form 990s from relevant years include the compensation for Mr. Magness' predecessor as CEO, HB Doggett.

- 3.3 – Your Request:

The source of data relied upon by the ERCOT Board and its committees in determining comparability between [ERCOT CEO] salary and compensation levels at similar organizations.

3.3 – ERCOT Response:

Please see ERCOT's Response to Request 3.1.

- 3.4 – Your Request:

The similar organizations on which the Board or its committees used in making a comparability determination.

3.4 – ERCOT Response:

Please see ERCOT's Response to Request 3.1.

#### **4. ERCOT Board Compensation**

4 – ERCOT Preface to Itemized Responses:

Legislatively-Mandated Board Composition; and Board Compensation

PURA Section 39.151(g)<sup>2</sup> requires that ERCOT must be governed by a 16-member Board of Directors, specifically composed of three types of Directors – that is, eight

---

<sup>2</sup> PURA Section 39.151(g) provides that “[t]o maintain certification as an independent organization under this section, an organization's governing body must be composed of persons specified by this section and selected in accordance with formal bylaws or protocols of the organization,” and further provides that the governing body “must be composed of” the Commission Chair (*ex officio*, non-voting); the chief executive for the Office of Public Utility Counsel (*ex officio*); the ERCOT CEO (*ex officio*); eight Market Participants [more correctly, Market Segments, to be consistent with ERCOT corporate governance and Protocol terminology] represented and elected by (a) independent generators, (b) investor-owned utilities, (c) power marketers, (d) retail electric providers, (e) municipally owned utilities, (f) electric cooperatives, (g) industrial consumers, and (h) large commercial consumers (*i.e.*, Market Segment Directors); and five members “unaffiliated with any market segment and selected by the other members of the governing body to



representatives of various enumerated electric industry Market Segments (including consumers), three *ex officio* representatives, and five members who are unaffiliated with any electric industry Market Segments. There is also a Segment Alternate in each Market Segment who can serve in the Market Segment Director's absence or vacancy.

No Compensation for Market Segment or *Ex Officio* Directors on the Board

All members of the ERCOT Board, except for the five Unaffiliated Directors, are required to be employed by ERCOT Members or are *ex officio* Directors who hold their respective offices; and they do not receive any compensation from ERCOT for their service on the ERCOT Board.

Compensation for Unaffiliated Directors of the Board

Pursuant to PURA Section 39.151(g)(7) and Section 4.2 of the ERCOT Bylaws, five Unaffiliated Directors must serve on ERCOT's Board. A copy of the ERCOT Bylaws (as approved by the Commission) is attached to ERCOT's Response to Request 3.1.

The five Unaffiliated Directors are each paid an annual retainer of \$87,000 in equal monthly installments of \$7,250 pursuant to Section 2.8.1.1. of the Board Policies and Procedures (attached as part of ERCOT's Response to Request 1.1), plus any additional specified compensation for Board Chair, Board Vice Chair, or Board Committee Chair positions, pursuant to Sections 2.8.1.2, 2.8.1.3 and 2.8.1.4 of the Board Policies and Procedures.

The Board Policies and Procedures are approved by the ERCOT Board of Directors after consideration by the HR&G Committee of the Board. When the current annual retainer and leadership compensation structure was adopted in July 2012, the HR&G Committee Chair reported that he had vetted the change with the PUCT Commissioners. The compensation structure was implemented to reflect the continuing contributions of the Unaffiliated Directors throughout the entire year to ERCOT (*e.g.*, meetings with ERCOT management and the PUCT) rather than solely their attendance at formal Board and Board Committee meetings. Pursuant to the HR&G Committee Charter, the HR&G Committee appointed a task force to review Unaffiliated Director compensation as illustrated in the attached December 6, 2016 memo, which also may be found on the ERCOT website. The task force considered compensation data from other ISOs and RTOs. Due to the amount of work that the Board and Board Committee leadership perform in between formal meetings, the compensation structure for the Unaffiliated Directors has remained unchanged and at the same compensation level since 2012.

---

serve three-year terms." Pursuant to the ERCOT Bylaws Section 4.2, there is also Segment Alternate for each of the Market Segment Directors, each of which is also elected by the members of the relevant 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). The chief executive (that is, the Public Counsel) for the Office of Public Utility Counsel represents residential and small consumer interests, and is thus considered, along with the Market Segment Directors, a representative of a Market Segment.

- 4.1 – Your Request:  
Services Rendered, Service Rate and Rate Determination for Terry Bulger, Board Member.

4.1 – ERCOT Response:

Terry Bulger received compensation as an Unaffiliated Director throughout his only term on the Board and for his extensive services as the Finance and Audit (F&A) Committee Chair while so serving, which required time to meet with ERCOT management, finance, information technology, risk management and legal staff as well as other Unaffiliated Directors serving in leadership roles. Mr. Bulger also met the specified qualifications of a financial expert; and the F&A Committee Charter requires at least one financial expert on the F&A Committee. Mr. Bulger was recruited to serve on the ERCOT Board through an executive search firm as required by PURA Section 39.151 and ERCOT Bylaws Section 4.3, and met the Unaffiliated Director professional experience criteria and qualifications.

Mr. Bulger’s seating as an Unaffiliated Director of the Board was approved by the PUCT in Docket No. 47916.

- 4.2 – Your Request:  
Services Rendered, Service Rate and Rate Determination for Peter Cramton, Board Member.

4.2 – ERCOT Response:

Peter Cramton received compensation as an Unaffiliated Director throughout his two terms on the Board and for his extensive services as the Board Vice Chair while so serving, which required time to meet with ERCOT management, commercial operations, credit, finance and legal staff as well as other Unaffiliated Directors serving in leadership roles. Mr. Cramton was recruited to serve on the ERCOT Board through an executive search firm as required by PURA Section 39.151 and ERCOT Bylaws Section 4.3, and met the Unaffiliated Director professional experience criteria and qualifications.

Mr. Cramton’s initial seating as an Unaffiliated Director on the Board was approved by the PUCT in Docket No. 44742 and his re-election as an Unaffiliated Director on the Board was approved by the PUCT in Docket No. 47915.

- 4.3 – Your Request:  
Services Rendered, Service Rate and Rate Determination for Craven Crowell, Board Member.

4.3 – ERCOT Response:

Craven Crowell received compensation as an Unaffiliated Director throughout his three terms on the Board (*i.e.*, a total of nine years) and for his extensive services as the Board Chair while so serving for those three terms, which required time to meet with ERCOT management, subject matter experts, information technology, finance, human resources, compliance, security (including federal government top secret clearance) and legal staff as well as other Unaffiliated Directors serving in leadership roles. Mr. Crowell was recruited to serve on the ERCOT Board through an executive search firm as required by PURA Section 39.151 and ERCOT Bylaws Section 4.3, and met the Unaffiliated Director professional experience criteria and qualifications.

Mr. Crowell's initial seating as an Unaffiliated Director on the Board was approved by the PUCT in Docket No. 39843 and his two re-elections as an Unaffiliated Director were approved by the PUCT in Docket Nos. 42539 and 46954.

- 4.4 – Your Request:

Services Rendered, Service Rate and Rate Determination for Karl Pfirrmann, Board Member.

4.4 – ERCOT Response:

Karl Pfirrmann received compensation as an Unaffiliated Director throughout his three terms on the Board (*i.e.*, a total of nine years) and for his extensive services as the HR&G Committee Chair while so serving, which required time to meet with ERCOT management, human resources, finance, risk management, security and legal staff as well as other Unaffiliated Directors serving in leadership roles. Mr. Pfirrmann was recruited to serve on the ERCOT Board through an executive search firm as required by PURA Section 39.151 and ERCOT Bylaws Section 4.3, and met the Unaffiliated Director professional experience criteria and qualifications.

Mr. Pfirrmann's initial seating as an Unaffiliated Director on the Board was approved by the PUCT in Docket No. 39844 and his two re-elections as an Unaffiliated Director were approved by the PUCT in Docket Nos. 42540 and 46953.

- 4.5 – Your Request:

Services Rendered, Service Rate and Rate Determination for Judy Walsh, Board Member.

4.5 – ERCOT Response:

Judy Walsh received compensation as an Unaffiliated Director through her three terms on the Board (*i.e.*, a total of nine years) and for her extensive services as the Board Vice Chair and F&A Committee Chair while so serving, which required time to meet with ERCOT management, subject matter experts, information technology, finance, human resources, compliance, security and legal staff as well as other Unaffiliated Directors

serving in leadership roles. Ms. Walsh also met the specified qualifications of a financial expert; and the F&A Committee Charter requires at least one financial expert on the F&A Committee. Ms. Walsh was recruited to serve on the ERCOT Board through an executive search firm as required by PURA Section 39.151 and ERCOT Bylaws Section 4.3, and met the Unaffiliated Director professional experience criteria and qualifications.

Ms. Walsh's initial seating as an Unaffiliated Director on the Board was approved by the PUCT in Docket No. 39845 and her two re-elections as an Unaffiliated Director were approved by the PUCT in Docket Nos. 42541 and 46952.

Again, I look forward to discussing these requests with you in greater detail. Please do not hesitate to contact me if you have any questions.

Regards,

/s/ Chad V. Seely

Chad V. Seely  
ERCOT Vice President and General Counsel  
(512) 225-7035  
[chad.seely@ercot.com](mailto:chad.seely@ercot.com)

cc: [BobbyJoe.Dale@Senate.Texas.Gov](mailto:BobbyJoe.Dale@Senate.Texas.Gov)