



To: ERCOT Board of Directors
From: Chad V. Seely, Vice President, General Counsel and Corporate Secretary
Date: December 2, 2021
Re: Report on Compliance with Committee Charter Requirements

The ERCOT Board of Directors (Board) has historically maintained two active committees whose meetings coincided with meetings of the Board—that is, the Finance and Audit (F&A) Committee and the Human Resources and Governance (HR&G) Committee. The F&A Committee and HR&G Committee each operate pursuant to a Committee Charter adopted by the Board.

Beginning with the resignation of all then-seated Unaffiliated (Independent) Directors effective February 24, 2021, there have been certain Committee Charter requirements that the Committees were unable to satisfy. For example, the F&A Committee and HR&G Committee Charters each require that at least two Committee members be Independent Directors, and the F&A Committee Charter requires that three members be from Market Segments while the HR&G Committee Charter requires that two be from Market Segments. From February 25, 2021 until the beginning of the terms of the first two Independent Directors selected by the ERCOT Board Selection Committee on October 12, 2021, there were no Independent Directors in place to serve on either Committee. Further, from October 12, 2021, upon the seating of the first two Independent Directors selected by the ERCOT Board Selection Committee, all Market Segment Director positions were eliminated from the Board. Accordingly, neither Committee has been able to comply with these composition requirements since February 25, 2021, and will not be able to comply until the relevant Charter is amended to remove the requirement that some Committee members be from Market Segments.

Further, due to the transition from the pre-Senate Bill 2 hybrid Board to the post-Senate Bill 2 independent Board and the ongoing filling of vacant Independent Director Board seats, the F&A and HR&G Committees have been temporarily suspended, and the Board has performed and will temporarily continue to perform certain responsibilities that had been delegated to the F&A Committee or HR&G Committee. Accordingly, certain Committee Charter responsibilities that would have fulfilled at the relevant Committee's October or December 2021 meetings will not be satisfied by the relevant Committee in 2021, although they will be fulfilled instead by the Board. Attached hereto is a non-exhaustive list of Committee Charter requirements and obligations that will not be met in 2021, excluding regular reports such as the Human Resources Operations Report and Review Financial Summary.

In 2022, I look forward to receiving input from the Board on the following: (1) whether to maintain the two Committees as-is or modify the existing Committees; (2) whether to create new Committees to address specific corporate governance matters; and (3) alignment of any Board decisions on the Committee framework with appropriate Charter scope, including responsibilities and requirements. I, along with my Legal team, stand ready to assist the Board in the decisions.

If you have any questions, please let me or Jonathan Levine, ERCOT Assistant General Counsel and Assistant Corporate Secretary, know.

F&A COMMITTEE	
Charter Requirement	Comments
“Annually, the Committee shall recommend to the Board the selection and engagement of qualified independent public accounting firms to . . . [p]erform annual System and Organization Control (SOC) audit of ERCOT’s controls related to settlement operations.”	The Board will select the 2022 SOC auditor at the December 9-10, 2021 Board meeting without a recommendation by the F&A Committee.
“With respect to the Company’s annual System and Organization Control (SOC) and 401(k) Savings Plan audits . . . [b]ased 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.”	The Board will vote on acceptance of the 2021 SOC audit report at the December 9-10, 2021 Board meeting without a recommendation by the F&A Committee.
“The Committee shall have final authority to review and approve the Annual Internal Audit Plan and all major changes to the Plan.”	The Board, rather than the F&A Committee, will vote to approve the 2022 Internal Audit Plan at the December 9-10, 2021 Board meeting.
“The Committee shall review the reports to management prepared by the Internal Audit Department and management’s responses.”	The Board, rather than the F&A Committee, did this at the October 22, 2021 Board meeting and will again instead of the F&A Committee at the December 9-10, 2021 Board meeting.
“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.”	The Board, rather than the F&A Committee, will review the performance and compensation of the Chief Audit Executive at the December 9-10, 2021 Board meeting..
“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.”	The F&A Committee usually completes a survey on the adequacy and effectiveness of the internal audit function and results are presented at the December Committee meeting. The Executive Team is separately evaluating the adequacy and effectiveness of the internal audit function, which it does each year at the same time as the Committee,

	and the results will be presented to the Board at the December 9-10, 2021 Board meeting.
“The Committee shall meet at least once during each fiscal quarter, and as many additional times as the Committee shall deem necessary or appropriate.”	There was no F&A Committee meeting in the fourth quarter of 2021.
“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.”	The F&A Committee usually undertakes this evaluation during the fourth quarter, and results are shared with the Committee at its December meeting. The Committee will not undertake an evaluation in 2021.

HR&G COMMITTEE	
Charter Requirement	Comments
“Annually, the Committee shall conduct a self-evaluation of its performance and, in light of this self-evaluation, 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.”	The HR&G Committee usually undertakes this evaluation during the fourth quarter, and results are shared with the Committee at its December meeting. The Committee will not undertake an evaluation in 2021.
“Review the CEO’s recommendations for compensation levels of CEO officer direct reports. Review CEO’s summary evaluation of CEO direct reports, or other employees the CEO identified for the Committee, against the Board-approved Key Performance Indicators or any other Board-approved goals and objectives for ERCOT.”	The HR&G Committee usually reviews these items at its December meeting. The Board, rather than the HR&G Committee, will review these items at the December 9-10, 2021 Board meeting.
“Review executive compensation.”	The HR&G Committee usually reviews this item at its December meeting. The Board, rather than the HR&G Committee, will review this item at the December 9-10, 2021 Board meeting.

<p>“Consult with the CEO and advise the Board regarding succession planning for CEO direct reports or other key employees identified by the CEO or the officer primarily responsible for the oversight of ERCOT’s Human Resources department.”</p>	<p>The HR&G Committee usually consults with the CEO at its October meeting. The Board, rather than the HR&G Committee, will review this item at the December 9-10, 2021 Board meeting.</p>
<p>“Receive a report summarizing the organizational succession planning process.”</p>	<p>The HR&G Committee usually receives this report at its October meeting. The Board, rather than the HR&G Committee, will receive this report at the December 9-10, 2021 Board meeting.</p>
<p>“Review ERCOT’s KPIs or any other goals and objectives of ERCOT, as applicable. Recommendation to the Board only for approval of annual KPIs.”</p>	<p>The HR&G Committee usually reviews this item at its December meeting. The Board will review this item at the December 9-10, 2021 Board meeting.</p>
<p>“Review and provide guidance on ERCOT’s five-year strategic plan.”</p>	<p>The HR&G Committee usually does this at its October meeting. The Board is expected to review and provide guidance on ERCOT’s strategic plan in early 2022.</p>
<p>“Review the overall governance structure of the Board, including the number, focus and membership of the Board Committees and subcommittees, including periodicity of meetings.”</p>	<p>While only required every three years, the Committee usually reviews this item at its December meeting. The Board is expected to review the overall governance structure of the Board and related matters early in 2022.</p>