



Item 5: Review of ERCOT Corporate Governance and Selection of Board Committees

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Board of Directors Meeting

ERCOT Public

March 7-8, 2022

Overview of ERCOT Corporate Governance

- Considerations
- Legal Framework
- Current Board Committee Structure
- Options and Recommendations
- Next Steps

Board Committees: Considerations

- How many committees, and what are their scopes?
 - Keep F&A and HR&G Committees as is, or divide one or both?
 - Add one or more other committees?
- Number of members on each committee?
- Limit membership to voting members?
- Committee qualifications?
- Should any committees include any non-Board member advisory representatives (e.g., stakeholders)?

ERCOT staff provided a detailed presentation on ERCOT Corporate Governance at the January 17-18, 2021 Special Board meeting, which is available here:

<https://www.ercot.com/files/docs/2022/01/18/4-REVISED-Overview-of-ERCOT-Corporate-Governance.pdf>

Board Committees: Legal Framework

TX Bus.
Org. Code
§ 22.219(a)

“The board of directors of a corporation ... may designate and appoint one or more committees”

Bylaws §
4.8

“The Board ... may appoint subcommittees as it deems necessary and appropriate to conduct the business of ERCOT.”

Appointment of a committee requires Board action (*i.e.*, vote)

Current Board Committees and Scope

Board of Directors

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graph TD;
    Board[Board of Directors] --- F&A[F&A Committee];
    Board --- HR&G[HR&G Committee];
    F&A --- Credit[Credit Work Group];
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F&A Committee

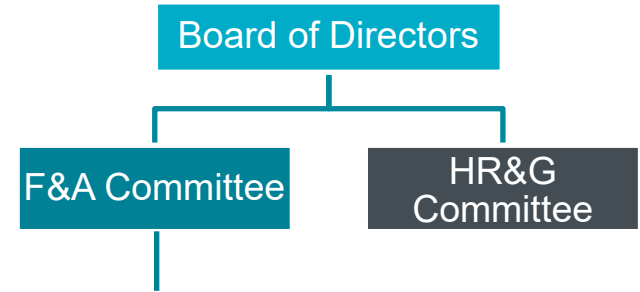
- Budget
- Company financing and investment and financial guidelines
- Risk assessment policies
- Market credit
- Internal and external audit
- Ethics complaints

Credit Work Group

HR&G Committee

- Human resources
- Governance
- External affairs
- Strategic planning

What is Credit Work Group?



Credit Work Group

- Established by the Board; reports to the F&A Committee
- Purpose/Authority:
 - Oversee procedures to mitigate credit risk in a fair and equitable manner
 - Review credit-related market rules and provide recommendations on proposed changes
- Membership:
 - One representative per ERCOT Member (must meet the Qualifications Guidelines for Credit Work Group Membership)
- Chair and Vice Chair confirmed annually by F&A Committee
- Separate stakeholder committee exists (Market Credit Working Group) that reports to WMS/TAC; no qualification criteria for

F&A and HR&G Committees: Split?



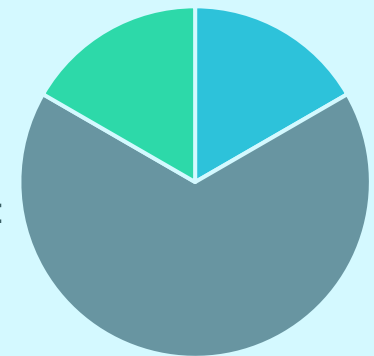
- single committee
- separate committees
- finance only

Of the six other U.S. ISOs/RTOs:

- Three have a single committee on finance and audit (CAISO, ISO-NE, MISO)
- Two have a separate finance committee and audit committee (NYISO, PJM)
- One has only a finance committee (SPP)

Of the six other U.S. ISOs/RTOs:

- Four have a separate human resources committee and governance committee (ISO-NE, MISO, PJM, SPP)
- One has only a governance committee (NYISO)
- One has neither (CAISO)



- neither
- separate committees
- governance only

Staff Recommendation

- Maintain current structure, with changes to scope of existing committees if the Board desires
 - *Examples:*
 - Move market credit risk oversight (Credit Work Group) to new Board committee on core ISO functions (discussed later in presentation)
 - Move ethics oversight from F&A Committee to HR&G Committee
- Board can modify at any time as desired based on experience

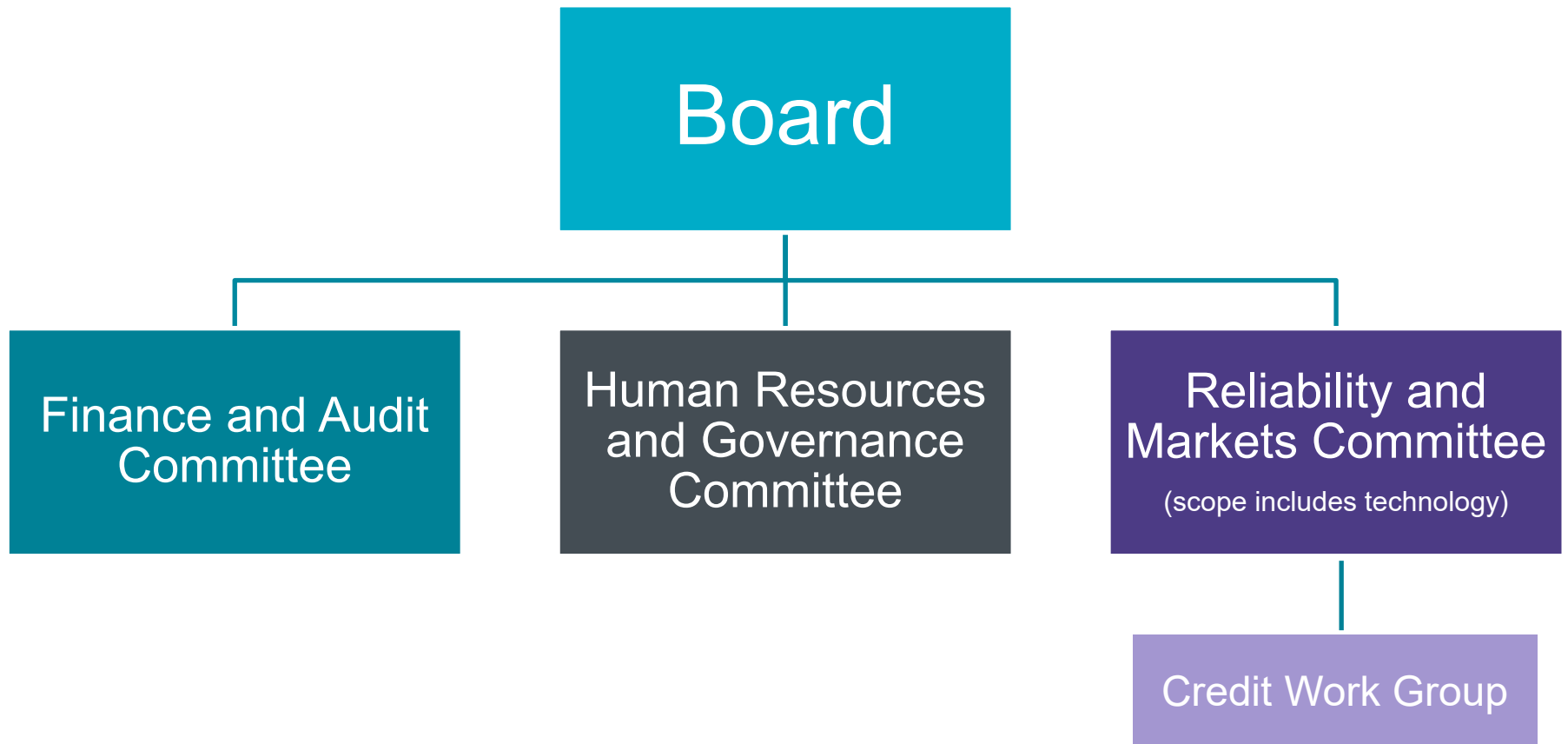
One or More Other Board Committees?

At the January 17-18, 2022 Special Board meeting, there was consensus to establish one to two additional committees covering the following:

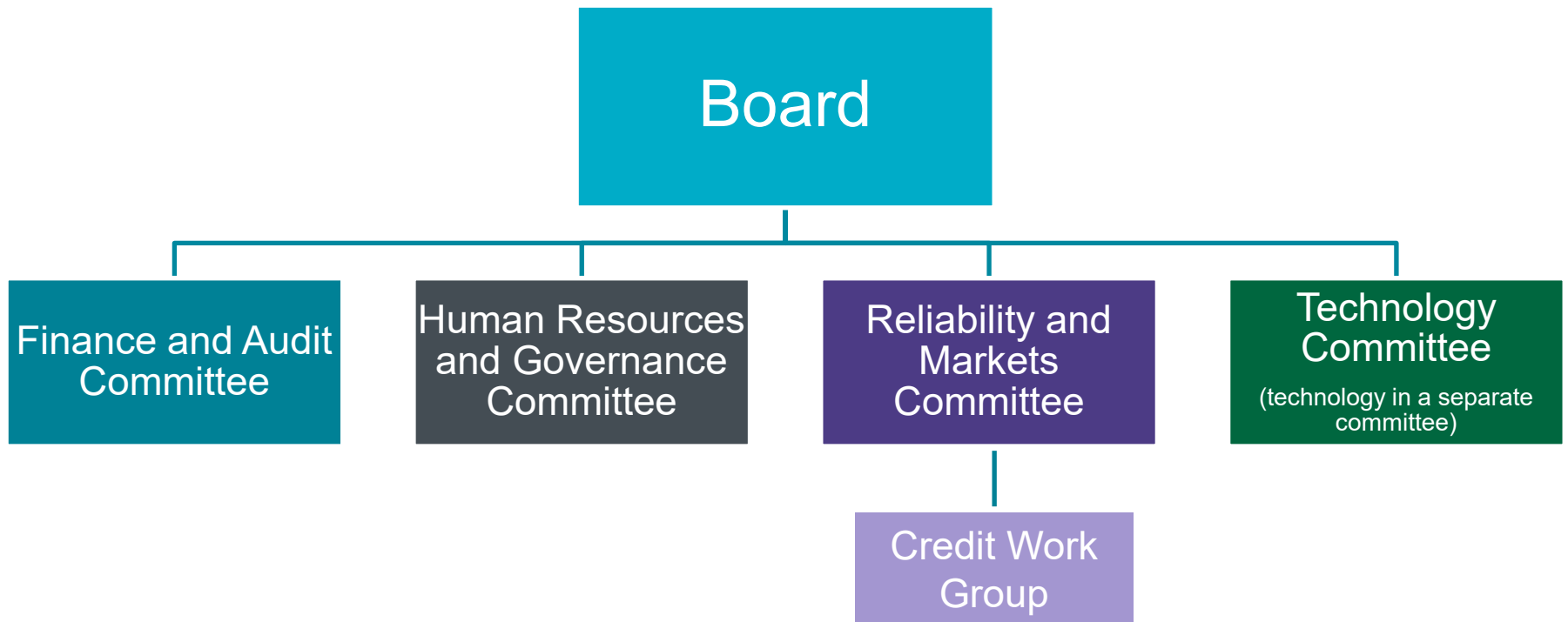


Two separate committees or a single committee?

Board Committees: Option One Staff Recommendation (Three Committees)



Board Committees: Option Two Alternative (Four Committees)



Other Considerations

Number of members on each committee?

- Staff recommends 3-5 Board members per committee for practical purposes
- Board members can serve on 1 or more committees

Limit membership to voting Board members?

- Staff recommends limiting membership to voting Board members; non-voting voting Board members (and voting Board members not on a committee) can attend and participate at any committee meeting
- PUC Commissioners can attend any committee meeting; quorum of Commissioners would be PUC Open Meeting

Other Considerations (cont.)

Committee qualifications?

- For example, maintaining “financial expert” requirement for F&A Committee
- Board member qualifications to be aligned with committee functions

Non-Board member advisory representatives (stakeholders)?

- For new Reliability & Markets Committee (and/or Technology Committee if Board prefers Option Two)
- Staff is neutral on this issue but will assist the Board in making a determination
- Maintain Credit Work Group?

Next Steps

Today: Vote to designate and appoint any new committees or change existing committees



Determine membership for committees (based on Board member preferences and qualifications)



Develop draft charters for new committees and draft revised charters for existing committees



Determine committee leadership



Determine when to begin/resume committee activities (April or later?)

Questions?





Date: February 28, 2022
To: Board of Directors
From: Chad V. Seely
Subject: Review of ERCOT Corporate Governance and Selection of ERCOT Board Committees

Issue for the ERCOT Board of Directors

ERCOT Board of Directors Meeting Date: March 7-8, 2022

Item No.: 5

Issue:

Whether the Board of Directors (Board) of Electric Reliability Council of Texas, Inc. (ERCOT) should establish one or more new committees, or eliminate or modify any existing committees.

Background/History:

Section 4.8 of the ERCOT Bylaws provides, in pertinent part: “The Board ... may appoint [committees] as it deems necessary and appropriate to conduct the business of ERCOT.”

At its meeting on March 7-8, 2022, the Board is expected to discuss the desired Board committee structure for the current Board. The Board may decide to establish and appoint one or more new committees. The Board may also decide to eliminate or modify one or both of the existing Finance and Audit (F&A) Committee and Human Resources and Governance (HR&G) Committee.

At the January 17-18, 2022 Special Board meeting, Board members discussed possible options for Board committee structures. Based on these discussions, ERCOT Legal recommends that the Board maintain the F&A and HR&G Committees and establish a new Reliability and Markets Committee charged with oversight of core Independent System Operator (ISO) functions, such as planning, markets, reliability and resilience as well as technology-related functions such as information technology and project delivery. At the March 7-8, 2022 Board meeting, ERCOT Legal will also present an alternative recommendation that would establish two new committees rather than a single committee: a Reliability and Markets Committee for core ISO functions, and a separate Technology Committee for technology-related functions.

Key Factors Influencing Issue:

- ERCOT Bylaws Section 4.8 requires Board approval for the appointment of a Board committee.
- Based on discussions at the January 17-18, 2022 Special Board meeting, the Board is expected to establish at least one new Board committee.



Conclusion/Recommendation:

ERCOT Legal recommends that the Board establish a new Reliability and Markets Committee charged with oversight of core ISO functions, such as planning, markets, reliability and resilience as well as technology-related functions such as information technology and project delivery, or otherwise take action to establish one or more new committees or eliminate or modify one or both of the existing F&A Committee and HR&G Committee as desired by the Board.



ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.
BOARD OF DIRECTORS RESOLUTION

WHEREAS, Section 4.8 of the ERCOT Bylaws provides, in pertinent part: “The Board ... may appoint [committees] as it deems necessary and appropriate to conduct the business of ERCOT”; and

WHEREAS, after due consideration of the alternatives, the Board of Directors (Board) of Electric Reliability Council of Texas, Inc. (ERCOT) deems it desirable and in the best interest of ERCOT to establish a committee of the Board to oversee core Independent System Operator (ISO) functions, such as planning, markets, reliability and resilience as well as technology-related functions such as information technology and project delivery;

THEREFORE, BE IT RESOLVED, that Board hereby establishes and appoints a committee to be known as the Reliability and Markets Committee, which shall oversee core ISO functions, such as planning, markets, reliability and resilience as well as technology-related functions such as information technology and project delivery, and perform such other functions required by law or otherwise as are necessary or appropriate to further the committee’s purposes or as may from time to time be delegated to the committee by the Board, and whose membership shall be decided upon by the Board.

CORPORATE SECRETARY’S CERTIFICATE

I, Jonathan M. Levine, Assistant Corporate Secretary of ERCOT, do hereby certify that, at its March 7-8, 2022 meeting, the Board passed a motion approving the above Resolution by _____.

IN WITNESS WHEREOF, I have hereunto set my hand this ____ day of March, 2022.

Jonathan M. Levine
Assistant Corporate Secretary