



**Date:** June 14, 2022  
**To:** ERCOT Board of Directors  
**From:** Finance and Audit (F&A) Committee Chair  
**Subject:** F&A Committee Charter

**Issue for the ERCOT Board of Directors**

**ERCOT Board of Directors Meeting Date:** June 21, 2022

**Item No.:** 12.1

**Issue:**

Whether the Board of Directors (Board) of Electric Reliability Council of Texas, Inc. (ERCOT) should approve any changes to the F&A Committee Charter.

**Background/History:**

The F&A Committee Charter requires review at least annually by the F&A Committee (Committee). Pursuant to this requirement, the Committee annually reviews and assesses the adequacy of the Committee's charter and recommends any proposed changes to the Board.

With due consideration of sound governance principles, industry trends, and discussions with the Committee, ERCOT's Chief Financial Officer, and the Chief Audit Executive, ERCOT Legal staff proposes the charter revisions set forth in **Attachment A** for the Committee's consideration. A comparison of the proposed revised charter against the current charter is also included as **Attachment B**.

The proposed revised F&A Committee Charter includes an updated charter format consistent with concurrent proposals for the charters of the Board's Human Resources and Governance Committee and Reliability and Markets (R&M) Committee, including numbering sections and subsections to facilitate reference. The proposed charters also recognize the Board's authority to appoint committee chairs.

In addition to bettering organization, the proposed revised F&A Committee Charter clarifies and further reflects the Committee's oversight of the Board's duties and responsibilities related to Internal Audit delegated by the Board to the Committee; the reassignment of oversight of market credit activities from the F&A Committee to the R&M Committee; the Committee's duties and responsibilities with respect to ethical complaints; and several minor points.

The F&A Committee is expected to review the F&A Committee Charter at its meeting on June 20, 2022 and is expected to recommend that the Board adopt, reject, or amend the F&A Committee Charter at the June 21, 2022 Board meeting.



**Key Factors Influencing Issue:**

The F&A Committee Charter identifies the functions that the F&A Committee is to perform and is reviewed annually to ensure that the F&A Committee continues to address relevant issues and to assist the Board in providing necessary oversight consistent with fiduciary duties.

**Conclusion/Recommendation:**

The F&A Committee is expected to review the F&A Committee Charter at its meeting on June 20, 2022 and is expected to recommend to the Board whether any F&A Committee Charter revisions should be made. If the F&A Committee recommends revisions to the F&A Committee Charter, then it is expected that the F&A Committee will recommend that the revisions become effective upon approval by the Board.



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

WHEREAS, at the meeting of the Board of Directors (Board) of Electric Reliability Council of Texas, Inc. (ERCOT) on June 21, 2022, the Finance and Audit (F&A) Committee of the Board recommended approval of the F&A Committee Charter consistent with **Attachment A** hereto; and

WHEREAS, after due consideration of the alternatives, the Board deems it desirable and in the best interest of ERCOT to approve the F&A Committee Charter as recommended by the F&A Committee;

THEREFORE, BE IT RESOLVED, that the F&A Committee Charter is approved consistent with **Attachment A**, to be effective immediately.

**CORPORATE SECRETARY'S CERTIFICATE**

I, Jonathan M. Levine, Assistant Corporate Secretary of ERCOT, do hereby certify that, at its June 21, 2022 meeting, the Board passed a motion approving the above Resolution by \_\_\_\_\_.

IN WITNESS WHEREOF, I have hereunto set my hand this \_\_\_\_ day of June, 2022.

\_\_\_\_\_  
Jonathan M. Levine  
Assistant Corporate Secretary

**ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.**  
**FINANCE & AUDIT COMMITTEE CHARTER**

**I. Committee 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 be responsible for the oversight of the Company’s financial and audit functions and such other functions as the Board, from time to time, may delegate to the Committee.

The Committee’s oversight extends to the functions described in the *Duties and Responsibilities* section of this Charter and includes the power, described in the *Committee Authority* section, to execute those duties and responsibilities as the Committee deems appropriate to further the Committee’s purposes.

**II. Committee Membership**

**A. Committee Member Qualifications**

1. The Board shall confirm the Committee’s membership (“Committee Members”) based on candidates’ combined expertise and experience to facilitate the Committee’s execution of the *Duties and Responsibilities* section of this Charter.
2. Each Committee Member must be able to read and understand fundamental financial statements, including the balance sheet, income statement and cash flow statement.
3. Committee Members are expected to prepare for and attend meetings of the Committee.

**B. Financial Expert**

1. 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”).
2. 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.

**C. Committee Member Terms**

1. A Committee Member shall serve on the Committee until whichever of the following first occurs:

- a. The Committee Member's service as a Board Director terminates;
- b. The Board, with or without cause, removes the Committee Member from the Committee; or
- c. The Committee Member resigns from the Committee.

### **III. Committee Chair and Secretary**

#### **A. Committee Chair**

1. The Board shall designate a Committee Member, who shall not be the CEO of ERCOT and who shall have accounting or related financial management expertise, as the Committee Chair.
2. The Committee Chair shall have the following duties:
  - a. Manage meetings and meeting frequency;
  - b. Manage and facilitate the Committee's work; and
  - c. Enlist the necessary assistance of other Committee Members to accomplish the Committee's purpose, duties, and responsibilities.
3. The Committee Chair's authority includes the following:
  - a. Unlimited access to ERCOT's management and information for purposes of conducting the functions of the Committee; and
  - b. Authority to establish such other rules as may from time to time be necessary and proper for the conduct of the Committee.

#### **B. Committee Secretary**

1. The Committee shall designate a secretary ("Committee Secretary"), who may be a Committee Member or employee of ERCOT.

### **IV. Committee Duties and Responsibilities**

#### **A. Committee Oversight Function**

1. The Committee's function is one of oversight, recognizing that the Company's management is responsible for preparing the Company's documents, plans, programs, filings, and agreements, including financial statements, and the independent auditor is responsible for auditing those statements.
2. In adopting this Charter, the Board acknowledges that the Committee Members are not employees of the Company and are not providing any expert or special assurance as to the Company's documents, plans, programs, filings, and agreements, including financial statements, or any professional certification as to the external auditor's work or auditing standards.
3. Each Committee Member shall be entitled to rely on the integrity and expertise of those providing information to the Committee, including both staff and persons the

Committee or the Company retains in relation to the Committee's performance of its duties and responsibilities, absent actual knowledge to the contrary.

4. 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.
5. It is the responsibility of the Committee to conduct investigations and resolve disagreements regarding financial reporting, if any, between management and the independent auditor.
6. The Committee shall assist 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.
7. In performing its duties and responsibilities, the Committee's general considerations shall include sound governance principles and industry trends.
8. The Committee's considerations specific to ERCOT shall include key performance indicators, the results of performance evaluations, reports of the Company's Internal Audit Department, impacts of changes to the regulatory landscape, and staff recommendations.
9. The Committee is responsible for assessing and mitigating the Company's audit and finance risks through the performance of the duties and responsibilities set forth in this Section IV and as otherwise necessary.
10. Committee duties and responsibilities are set forth below as a guide to the Committee with the understanding that the Board may alter or supplement them as appropriate under the circumstances to the extent permitted by applicable law, and by the Company's certificate of formation and bylaws.

***B. The Committee's Internal Controls Duties and Responsibilities:***

1. The Committee shall review management's annual report on the adequacy and effectiveness of the Company's internal controls in a timely manner.

**C. The Committee's Budget Oversight and Financing Duties and Responsibilities:**

1. At least annually, the Committee shall:
  - a. Review staff's proposed budget for the following year(s);
  - b. Review 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; and
  - c. Following the Committee's review of the above items, recommend to the Board, a proposed budget and associated financing plan for the following year(s).
2. 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.

**D. The Committee's Duties and Responsibilities with respect to Investment and Financial Guidelines:**

1. The Committee shall 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 as needed.

**E. The Committee's Duties and Responsibilities with respect to Independent Auditors:**

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 annual System and Organization Control (SOC) audit of ERCOT's controls related to settlement operations; and
  - c. Perform annual audit of ERCOT's 401(k) Savings Plan.
2. The Committee shall 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.
  - a. 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.

- b. 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.
4. 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.
5. 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 auditor's firm and the Company's management.
6. The Committee shall establish the Company's hiring policies for employees who are former employees of the Company's independent auditors.

***F. The Committee's Duties and Responsibilities with respect to the Company's Financial Statements:***

1. The Committee shall discuss the annual audited financial statements with management and the independent auditor.
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. The Committee shall review major changes to the Company's auditing and accounting principles and practices as suggested by the independent auditor, internal auditors or management.
5. The Committee shall 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.



6. Based on its review and discussions with management and the independent auditor, the Committee shall provide a recommendation to the Board whether the Company's financial statements audit report should be accepted.

***G. The Committee's Duties and Responsibilities with respect to the Company's annual System and Organization Control (SOC) 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.

***H. The Committee's Duties and Responsibilities 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. Periodically, 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, and 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.
7. Annually, the Committee shall conduct a self-evaluation of its performance and report to the Board the results of its evaluation.

**I. The Committee's Internal Audit Duties and Responsibilities:**

1. The Committee shall review with management and the Chief Audit Executive the activities, staffing, budget, and organizational structure of the internal audit function.
2. Annually, the Committee shall review, assess the adequacy of, and approve the Internal Audit Department Charter.
3. The Committee shall have final authority to review and approve the Annual Internal Audit Plan and all major changes to the Plan.
4. 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.
5. The Committee shall review with the Chief Audit Executive key findings and recommendations to management prepared by the Internal Audit Department in connection with its internal audits.
6. The Committee shall ensure there are no unjustified restrictions or limitations on, and review and concur in the appointment, replacement, or dismissal of, the Chief Audit Executive.
7. The Committee shall, at least once per year, review the performance of the Chief Audit Executive and concur with their annual compensation and salary adjustment.
8. 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*.
9. 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 Department believes should be discussed privately.
10. At least every five years, the Committee shall approve the selection of a firm to conduct an external quality assurance review of the Internal Audit Department.

**J. The Committee's Duties and Responsibilities with respect to Ethical Complaints:**

1. The Committee shall ensure that the Company maintains procedures for the receipt (including anonymous submission), retention and treatment of complaints regarding suspected ethical violations, including but not limited to complaints involving financials, accounting, ERCOT management, fraud, and the Company's policies and procedures.

2. Periodically, the Committee shall review with staff a summary of any complaints received through the procedures described in item 1 above.

## **V. Committee Authority**

### **1. Power to Investigate**

- a. The Committee is empowered to investigate any matter relating to its duties and responsibilities, with full access to all books, records, facilities, and personnel of the Company and the power to retain compensation consultants, independent counsel, or other consultants or experts for this purpose.
- b. All employees are directed to cooperate as requested by the Committee or any of its Committee Members for Committee purposes.
- c. The Committee may request any officer or employee of the Company or the Company's consultants or outside counsel to attend a meeting of the Committee to advise the Committee in carrying out its responsibilities.

### **2. Appointment of Workgroups or Task Forces**

- a. 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 Board members. Such workgroups or task forces shall have no authority to bind the Committee, the Board, or the Company.

### **3. Reporting Relationship and Role of Company's Chief Audit Executive**

- a. The Director of Internal Audit is the Chief Audit Executive at the Company.
- b. The Company's Chief Audit Executive shall report directly to the Committee.
- c. For administrative purposes, the Chief Audit Executive shall report to the CEO.
- d. The Committee shall approve an Annual Internal Audit Plan prepared by the Chief Audit Executive.
- e. The Chief Audit Executive shall:
  - i. Manage the execution of the Annual Internal Audit Plan;
  - ii. Conduct investigations at the direction of the Committee Chair and the Committee; and
  - iii. Make periodic reports to the Committee at regularly scheduled Committee meetings and as otherwise directed by the Committee Chair and the Committee.

## VI. Committee Meetings

### 1. Meeting Agendas and Timing

- a. The Committee Chair, in consultation with the Board Chair, the Company's Vice President and Chief Financial Officer, and the Company's Corporate Secretary or delegated ERCOT staff, shall develop the agenda, frequency, and length of meetings.

### 2. Participation and Voting

- a. Board members who are not Committee Members (including alternate representatives, as set forth in the bylaws) may attend and participate in all Committee meetings, but may not vote on Committee matters, except that an alternate representative for a Director who is a Committee Member may vote in the absence of the Director.

### 3. Quorum and Committee Action

- a. At all meetings of the Committee, fifty percent (50%) of the Committee Members shall constitute a quorum for the transaction of business.
- b. At any meeting at which a quorum exists, the act of a majority of the Committee Members present shall be the act of the Committee.
- c. For the purposes of voting, Committee Members who recuse themselves from voting on an issue shall not be counted as present for that vote.

### 4. Meeting Minutes

- a. The Committee Secretary shall prepare or cause to be prepared the minutes of each meeting and file such minutes with the corporate records of the Company.

**ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.**  
**FINANCE & AUDIT COMMITTEE CHARTER**

**I. Committee 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: be responsible for the oversight of the Company’s financial and audit functions and such other functions as the Board, from time to time, may delegate to the Committee.

- ~~1. Oversee the development of and adherence to the 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 power, described in the *Committee Authority* section, to execute those 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 (“as the Committee Members”) are not employees of the Company 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 deemed appropriate to further the Committee’s purposes.~~

~~1. 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.~~

~~1. 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.~~

## II. Committee Membership and

### A. Committee Member Qualifications

#### Committee Composition; Committee Member Qualifications; and Term

- ~~1. 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. The Board shall confirm the Committee's membership ("Committee Members") based on candidates' combined expertise and experience to facilitate the Committee's execution of the *Duties and Responsibilities* section of this Charter.~~
2. 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 Committee Members shall be for not more than one year.~~
- ~~3. Designation and Qualifications of Committee~~ Committee Members are expected to prepare for and attend meetings of the Committee.

**B. Financial Expert**

1. 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”).
2. 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 C. Committee Member Terms**

1. A Committee Member shall serve on the Committee until whichever of the following first occurs:
  - a. The Committee Member’s service as a Board Director terminates;
  - b. The Board, with or without cause, removes the Committee Member from the Committee; or
  - c. The Committee Member resigns from the Committee.

**III. Committee Chair; and Secretary****A. Committee Chair Qualifications**

1. ~~The Chair of the Board shall designate a~~ Committee shall be elected through a majority vote of the Committee Members. The Committee Chair Member, who shall not be the CEO of the Company ERCOT and who shall have accounting or related financial management expertise, as the Committee Chair.
2. The Committee Chair shall have the following duties:
  - a. Manage meetings and meeting frequency;
  - b. Manage and facilitate the Committee’s work; and
  - c. Enlist the necessary assistance of other Committee Members to accomplish the Committee’s purpose, duties, and responsibilities.
3. The Committee Chair’s authority includes the following:
  - a. Unlimited access to ERCOT’s management and information for purposes of conducting the functions of the Committee; and
  - b. Authority to establish such other rules as may from time to time be necessary and proper for the conduct of the Committee.



### **B. Committee Secretary**

1. The Committee shall designate a secretary (“Committee Secretary”), who may be a Committee Member or employee of ERCOT.

## **IV. Committee Duties and Responsibilities**

### **A. Committee Oversight Function**

1. The Committee’s function is one of oversight, recognizing that the Company’s management is responsible for preparing the Company’s documents, plans, programs, filings, and agreements, including financial statements, and the independent auditor is responsible for auditing those statements.
2. In adopting this Charter, the Board acknowledges that the Committee Members are not employees of the Company and are not providing any expert or special assurance as to the Company’s documents, plans, programs, filings, and agreements, including financial statements, or any professional certification as to the external auditor’s work or auditing standards.
3. Each Committee Member shall be entitled to rely on the integrity and expertise of those providing information to the Committee, including both staff and persons the Committee or the Company retains in relation to the Committee’s performance of its duties and responsibilities, absent actual knowledge to the contrary.
4. 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.
5. It is the responsibility of the Committee to conduct investigations and resolve disagreements regarding financial reporting, if any, between management and the independent auditor.
6. The Committee shall assist 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.

### **Authority**



### 1. ~~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.~~

### 1. ~~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

7. The following shall be the prominent recurring duties and responsibilities of the Committee in carrying out its oversight functions. The  
In performing its duties and responsibilities, the Committee's general considerations shall include sound governance principles and industry trends.
8. The Committee's considerations specific to ERCOT shall include key performance indicators, the results of performance evaluations, reports of the Company's Internal Audit Department, impacts of changes to the regulatory landscape, and staff recommendations.

9. The Committee is responsible for assessing and mitigating the Company's audit and finance risks through the performance of the duties and responsibilities set forth in this Section IV and as otherwise necessary.

10. Committee duties and responsibilities are set forth below as a guide to the Committee with the understanding that the Committee Board may alter or supplement them as appropriate under the circumstances to the extent permitted by applicable law, and by the Company's Articles certificate of Incorporation formation and Bylaws: bylaws.

**With respect to internal controls:**

**B. The Committee's Internal Controls Duties and Responsibilities:**

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. If the Board is not informed by management at least semi-annually, 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:**

~~Annually or biennially, the Committee shall review~~  
**C. The Committee's Budget Oversight and Financing Duties and Responsibilities:**

1. At least annually, the Committee shall:
  - 1.a. Review staff's proposed budget for the following year(s)-);
  - ~~2.b. The Committee shall review~~Review 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-; and
  - ~~3.c. 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).
- 4.2. 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 D. The Committee's Duties and Responsibilities with respect to maintaining investment and financial guidelines for the Company, the Investment and Financial Guidelines:**

The Committee shall:

1. ~~Establish~~ 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 E. The Committee's Duties and Responsibilities 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 Working 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 Independent Auditors:**

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 annual System and Organization Control (SOC) audit of ERCOT's controls related to settlement operations; and
  - c. Perform annual audit of ERCOT's 401(k) Savings Plan.
2. ~~Establish~~ The Committee shall 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.a.~~ 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.b.~~ 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.

~~6.4.~~ 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.

~~7.5.~~ 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. e.~~ Any other material written communication between the independent ~~auditors~~ auditor’s firm and the Company’s management.

~~6. 8.~~ ~~Establish~~ The Committee shall establish the Company’s hiring policies for employees who are former employees of the Company’s independent auditors.

**With F. The Committee’s Duties and Responsibilities with respect to the Company’s financial statements**  
**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~~The Committee shall 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.~~

6-5. ReviewThe Committee shall 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 brought to the attention of the Committee 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.~~

8-6. Based on its review and discussions with management 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 G. The Committee’s Duties and Responsibilities with respect to the Company’s annual System and Organization Control (SOC) and 401(k) Savings Plan audits**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 H. The Committee’s Duties and Responsibilities with respect to periodic reviews**Periodic Reviews and reportsReports:

1. Periodically, the ~~committee~~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~~Periodically, 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 ~~of, and~~ 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.
7. ~~With respect~~Annually, the Committee shall conduct a self-evaluation of its performance and report to the Board the results of its evaluation.

#### **I. The Committee's Internal Audit Duties and Responsibilities:**

1. The Committee shall review with management and the Chief Audit Executive the ~~charter,~~ activities, staffing, budget, and organizational structure of the internal audit function.
2. Annually, the Committee shall review, assess the adequacy of, and approve the Internal Audit Department Charter.
- 2.3. \_\_\_\_\_ The Committee shall have final authority to review and approve the Annual Internal Audit Plan and all major changes to the Plan.
- 3.4. \_\_\_\_\_ 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.
- 4.5. \_\_\_\_\_ The Committee shall review ~~the reports with the Chief Audit Executive~~ key findings and recommendations to management prepared by the Internal Audit Department ~~and management's responses in connection with its internal audits.~~
- 5.6. \_\_\_\_\_ The Committee shall ensure there are no unjustified restrictions or limitations on, and review and concur in the appointment, replacement, or dismissal of the Chief Audit Executive.
- 6.7. \_\_\_\_\_ The Committee shall, at least once per year, review the performance of the Chief Audit Executive and concur with ~~the~~their annual compensation and salary adjustment.
- 7.8. \_\_\_\_\_ 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*.



- 8.9. ~~\_\_\_\_\_~~ 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~~ Committee or Internal Audit Department believes should be discussed privately.

## Meetings

### Frequency of Meetings

- ~~10. The Committee shall meet at At least once during each fiscal quarter, and as many additional times as every five years, the Committee shall deem necessary or appropriate. approve the selection of a firm to conduct an external quality assurance review of the Internal Audit Department.~~

### Chair's *J. The Committee's Duties and Responsibilities with respect to Ethical Complaints:*

1. The Committee shall ensure that the Company maintains procedures for the receipt (including anonymous submission), retention and treatment of complaints regarding suspected ethical violations, including but not limited to complaints involving financials, accounting, ERCOT management, fraud, and the Company's policies and procedures.
2. Periodically, the Committee shall review with staff a summary of any complaints received through the procedures described in item 1 above.

## V. Committee Authority

### 1. Power to Investigate

- a. The Committee is empowered to investigate any matter relating to its duties and responsibilities, with full access to all books, records, facilities, and personnel of the Company and the power to retain compensation consultants, independent counsel, or other consultants or experts for this purpose.
- b. All employees are directed to cooperate as requested by the Committee or any of its Committee Members for Committee purposes.
- c. The Committee may request any officer or employee of the Company or the Company's consultants or outside counsel to attend a meeting of the Committee to advise the Committee in carrying out its responsibilities.

### 2. Appointment of Workgroups or Task Forces

- a. 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 Board members. Such workgroups or task forces shall have no authority to bind the Committee, the Board, or the Company.

### 3. Reporting Relationship and Role of Company's Chief Audit Executive

- a. The Director of Internal Audit is the Chief Audit Executive at the Company.
- b. The Company's Chief Audit Executive shall report directly to the Committee.
- c. For administrative purposes, the Chief Audit Executive shall report to the CEO.
- d. The Committee shall approve an Annual Internal Audit Plan prepared by the Chief Audit Executive. ~~Relating to~~
- e. The Chief Audit Executive shall:
  - i. Manage the execution of the Annual Internal Audit Plan;
  - ii. Conduct investigations at the direction of the Committee Chair and the Committee; and
  - iii. Make periodic reports to the Committee at regularly scheduled Committee meetings and as otherwise directed by the Committee Chair and the Committee.

## VI. Committee Meetings

### 1. Meeting ~~Management~~ Agendas and Timing

- a. The Committee Chair, in consultation with the Board Chair, the Company's Vice President and Chief Financial Officer, and the Company's Corporate Secretary or delegated ERCOT staff, shall develop the agenda, the frequency, and length of meetings.

### 2. Participation and Voting ~~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~~

- a. ~~Board members who are not Committee Members (including alternate representatives, as may from time to time be necessary and proper for the conduct of the Committee set forth in the bylaws) may attend and participate in all Committee meetings, but may not vote on Committee matters, except that an alternate representative for a Director who is a Committee Member may vote in the absence of the Director.~~



3. Attendance at Open Session Quorum and Executive Session of Committee Meetings Action

- a. At all meetings of the Committee, fifty percent (50%) of the Committee Members shall constitute a quorum for the transaction of business.
- b. At any meeting at which a quorum exists, the act of a majority of the Committee Members present 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. ~~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.~~

c.

Meeting 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, except that a Segment Alternate or Alternate Representative for a Market Segment Director that is a Committee Member may vote in the absence of the Market Segment Director (including while such Director is unable to attend a Committee meeting or while such Director's seat is vacant).~~

4. Minutes

~~The Committee shall designate a secretary, who may be a Committee Member or employee of ERCOT, who~~ Secretary 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

- a. ~~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.~~

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