



Date: June 13, 2023
To: Board of Directors
From: Peggy Heeg, Human Resources and Governance (HR&G) Committee Chair
Subject: Board Compensation

Issue for the ERCOT Board of Directors

ERCOT Board of Directors Meeting Date: June 20, 2023

Item No.: 12.2

Issue:

Whether the Board of Directors (Board) of Electric Reliability Council of Texas, Inc. (ERCOT) should approve an increase to Director compensation levels, to be effective July 1, 2023, subject to approval by the Public Utility Commission of Texas (PUCT or Commission).

Background/History:

Rules Relating to Director Compensation

Public Utility Regulatory Act (PURA) Section 39.151(g-2) provides that “Members of the governing body [of ERCOT] are entitled to receive a salary for their service.” Consistent with PURA, ERCOT Bylaws Section 10.1(b) provides, in pertinent part:

The Board shall have the authority to fix the compensation of its Selected Directors who may be paid a fixed sum plus reimbursement of travel expenses for attendance at each meeting of the Board, or a stated compensation as a member thereof, or any combination of the foregoing. Selected Directors, who are members of standing or special committees, may be allowed like compensation and reimbursement of travel expenses for attending committee meetings.

Compensation levels for Selected Directors are set forth in Appendix A of the Board Policies and Procedures. The Board Policies and Procedures may be amended at any time pursuant to Section 11.1 thereof.

The Board has delegated oversight of compensation for Selected Directors to the HR&G Committee. Section (IV)(B)(1)(a)(ii) of the HR&G Committee Charter provides:

The Committee shall regularly review the Company’s governance processes and governing documents, and if applicable, make recommendations to the Board regarding potential changes to the Company’s governance. This review shall include ... [a]n annual review of the Board’s policies and procedures addressing Director compensation.



Further, Section (V)(a)(1) provides, in pertinent part, that “[t]he Committee is empowered to investigate any matter relating to its duties and responsibilities, with ... the power to retain compensation consultants ... for this purpose.”

Pursuant to PUCT Substantive Rule 25.362(g)(5), “Compensation, per diem and travel reimbursements to be paid to unaffiliated members of the [ERCOT] governing board shall be subject to commission review and approval.”

Director Compensation History

Compensation levels for Directors entitled to be paid for service (at the time, “Independent Directors”) were last changed by the Board at its meeting on December 12-13, 2012. Compensation levels have remained unchanged for nearly 11 years. Director Compensation was reviewed by a task force of the HR&G Committee in December 2016, and such review resulted in no changes. The last HR&G Committee review of Director Compensation was undertaken in October 2020, and no changes to compensation levels were recommended at that time.

To facilitate the HR&G Committee’s annual review of Director compensation, at its February 28, 2023 meeting, the Board selected Meridian Compensation Partners (Meridian) as a compensation consultant. Meridian performed a benchmarking analysis using multiple data sources and market perspectives, including other Independent System Operators (ISOs), comparably-sized general industry companies, Market Participants, and public companies with which ERCOT’s directors are affiliated. Based on this benchmarking analysis and other considerations including the high volume and complexity of work, recruitment considerations, and external optics and standards, Meridian, in consultation with the HR&G Committee, recommended an increase to Director compensation levels as follows, to be effective July 1, 2023 (all amounts are annual):

Component	Current	Recommended
Selected Director Base Compensation	\$87,000	\$160,000
Board Chair	\$12,800	\$35,000
Board Vice Chair	\$7,500	\$15,000
Board Committee Chair	\$5,600	\$25,000

The details of Meridian’s analysis are set forth in the meeting materials for the June 20, 2023 HR&G Committee meeting.

If a change to Director compensation levels is approved by the Board and subsequently by the Commission, Appendix A of the Board Policies and Procedures would be amended to reflect the new approved levels. A redlined version of Appendix A reflecting the above change in Director compensation levels is attached as **Attachment A**.

The HR&G Committee is scheduled consider the proposed change to Director compensation levels at its June 20, 2023 meeting and is expected to make a recommendation to the Board regarding such proposed change.

Key Factors Influencing Issue:

- Pursuant to Section 10.1(b), the Board has the authority to fix the compensation of its Selected Directors, subject to approval by the Commission.
- Director compensation levels are set forth in Appendix A of the Board Policies and Procedures, which the Board may amend at any time.
- Current Director compensation levels have been in place since December 2011.
- Based on its benchmarking analysis and other considerations including the high volume and complexity of work, recruitment considerations, and external optics and standards, Meridian, in consultation with the HR&G Committee, has recommended an increase to Director compensation levels as reflected in **Attachment A**.

Conclusion/Recommendation:

The HR&G Committee is expected to recommend that the Board approve an increase to Director compensation levels as recommended by Meridian, as reflected in **Attachment A**, to be effective July 1, 2023, subject to approval by the PUCT.



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

WHEREAS, pursuant to Public Utility Regulatory Act (PURA) Section 39.151(g-2), members of the Board of Directors (Board) of Electric Reliability Council of Texas, Inc. (ERCOT) are entitled to receive a salary for their service;

WHEREAS, ERCOT Bylaws Section 10.1(b) provides that the Board “shall have the authority to fix the compensation of its Selected Directors,” subject to the review and approval of the Public Utility Commission of Texas (PUCT) pursuant to PUCT Substantive Rule 25.362(g)(5);

WHEREAS, compensation levels for Selected Directors are set forth in Appendix A of the Board Policies and Procedures, which may be amended by the Board at any time pursuant to Section 11.1 thereof;

WHEREAS, Director compensation levels were last changed in December 2012;

WHEREAS, the Board has engaged Meridian Compensation Partners (Meridian) as a compensation consultant, and based on a benchmarking analysis using multiple data sources and market perspectives, including other Independent System Operators (ISOs), comparably-sized general industry companies, Market Participants, and public companies with which ERCOT’s directors are affiliated and other considerations including the high volume and complexity of work, recruitment considerations, and external optics and standards, Meridian, in consultation with the Human Resources and Governance (HR&G) Committee of the Board, has recommended an increase to Director compensation levels as set forth in the changes to Appendix A of the Board Policies and Procedures attached hereto as **Attachment A**, to be effective July 1, 2023;

WHEREAS, after due consideration of the alternatives, the HR&G Committee has recommended that the Board approve the proposed increase to Director compensation levels as recommended by Meridian, subject to the review and approval of the PUCT; and

WHEREAS, the Board deems it desirable and in the best interest of ERCOT to accept the HR&G Committee’s recommendation to approve the proposed increase to Director compensation levels as recommended by Meridian, subject to the review and approval of the PUCT;

THEREFORE, BE IT RESOLVED, that the Board hereby approves the increase to Director compensation levels as set forth in the changes to Appendix A of the Board Policies and Procedures attached hereto as **Attachment A**, to be effective July 1, 2023, subject to the review and approval of the PUCT;



THEREFORE, BE IT FURTHER RESOLVED, that upon approval by the PUCT of the increase in Director compensation levels, ERCOT staff is authorized to amend the Board Policies and Procedures by revising Appendix A as reflected in **Attachment A**, to be effective July 1, 2023.

CORPORATE SECRETARY'S CERTIFICATE

I, Jonathan M. Levine, Assistant Corporate Secretary of ERCOT, do hereby certify that, at its June 20, 2023 meeting, the Board passed a motion approving the above Resolution by _____.

IN WITNESS WHEREOF, I have hereunto set my hand this ____ day of June, 2023.

Jonathan M. Levine
Assistant Corporate Secretary

Board and Residential Consumer TAC Representative Compensation

Role	Base Compensation	Added Compensation
Selected Director	\$87,000 <u>\$160,000</u> per year	--
Board Chair	--	\$12,800 <u>\$35,000</u> per year
Board Vice Chair	--	\$7,500 <u>\$15,000</u> per year
Board Committee Chair	--	\$5,600 <u>\$25,000</u> per year
Residential Consumer TAC Representative	\$3,000 per month	\$500 per meeting for up to 3 TAC or TAC subcommittee meetings per month