



## **Item 7: Review Conflict of Interest Disclosures Submitted by Employees and Directors**

*Chad V. Seely*

Senior Vice President, General Counsel and  
Corporate Secretary

Human Resources and Governance Committee  
Meeting

ERCOT Public  
June 20, 2023

# Overview

- **Purpose**

To provide an overview of conflict-of-interest disclosures by ERCOT employees and Board members

- **Voting Items / Requests**

No action is requested of the HR&G Committee or Board; for discussion only

- **Key Takeaways**

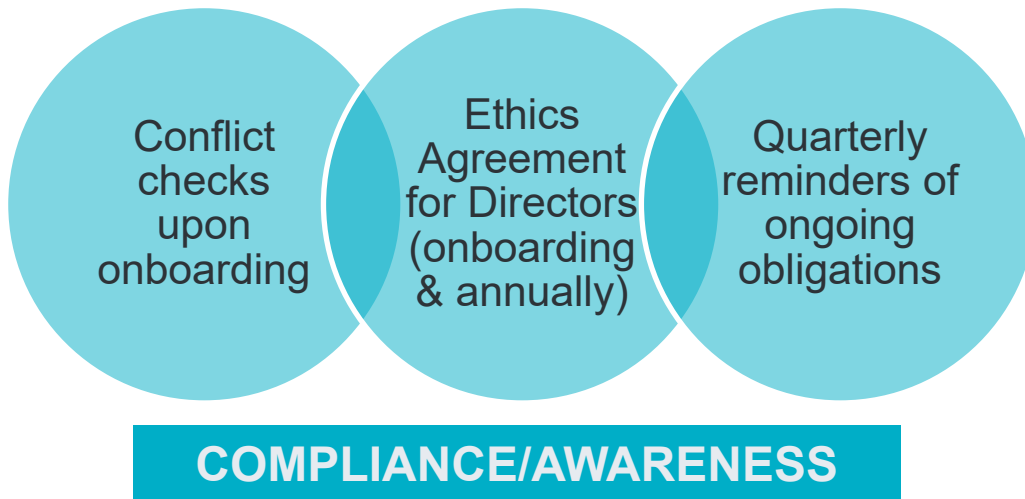
- One Board member conflict of interest disclosed in 2022-2023, resulting in resignation from Board
- For employees, the average number of disclosures in the last 3 years is 66
- The most common disclosure category in 2022 was a spouse or family member working for a Market Participant or Vendor
- One ERCOT Officer potential conflict of interest disclosed in 2022-2023, but determined not to be a conflict of interest

### HR&G Committee Charter Section IV(B)(1)(a)(iv)

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 ... [r]egular reports regarding potential conflicts of interests disclosed by the Company's employees and the Board of Directors

# Board of Directors Conflicts of Interest

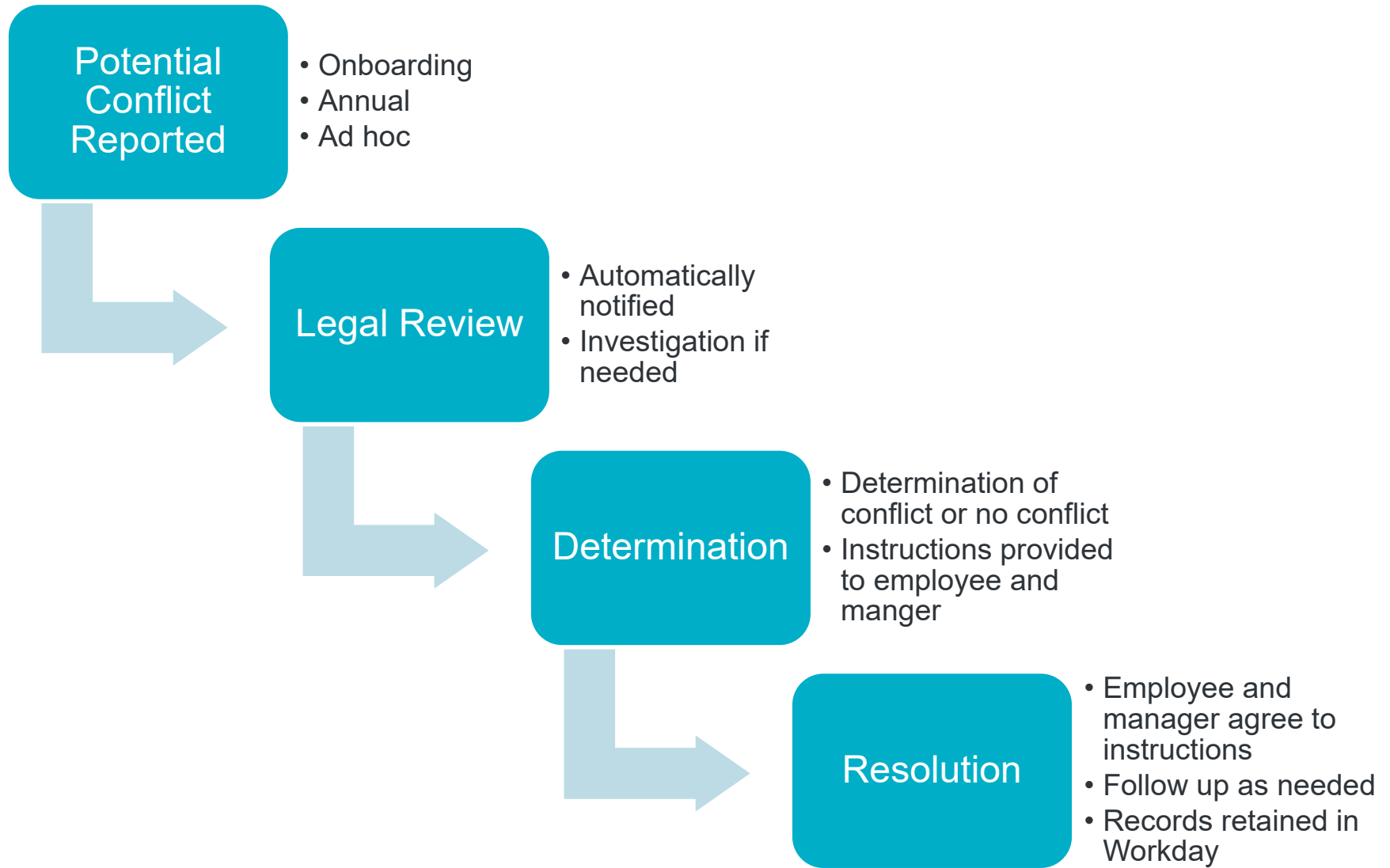
R U L E S	<b>PURA § 39.151(g-3) Bylaws § 4.3(e)(3)</b>	<b>PURA § 39.1512 Bylaws § 9.2</b>	<b>Ethics Agreement for Directors</b>
	<ul style="list-style-type: none"> <li>• No fiduciary duty or assets in the ERCOT electricity market</li> </ul>	<ul style="list-style-type: none"> <li>• Obligation to report conflicts of interest</li> <li>• Must be kept in corporate records</li> </ul>	<ul style="list-style-type: none"> <li>• Must report relationships with a Market Participant, Vendor or Qualified Financial Institution</li> <li>• Reinforces obligations from PURA &amp; Bylaws</li> </ul>



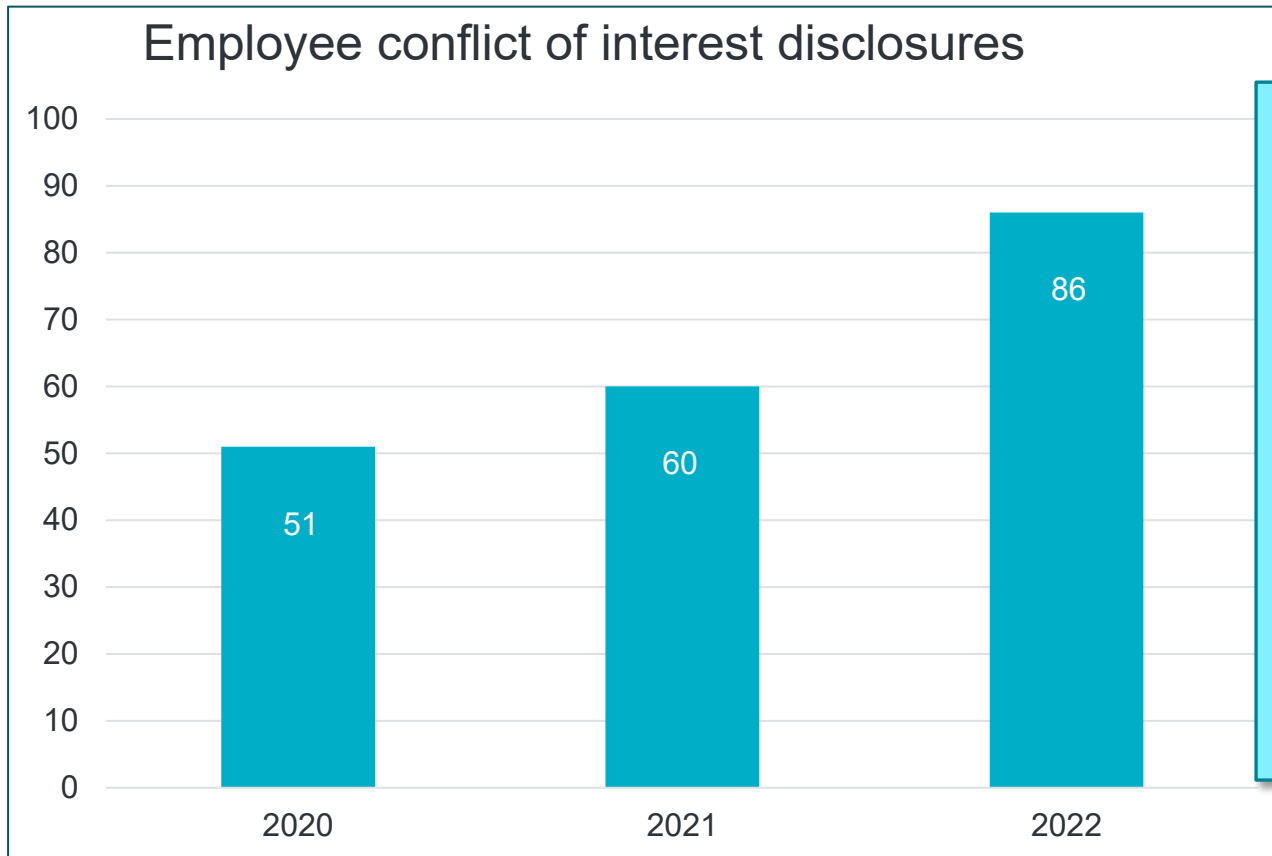
One Board member conflict disclosure in December 2022 (Zin Smati)

- Served on board of company that became an ERCOT Market Participant through an asset purchase
- Because of PURA § 39.151(g-3) prohibition against fiduciary duties in the ERCOT electricity market, he resigned (see [Market Notice M-A010423-01](#))

# Employee Conflict of Interest Reporting Process Overview



# 3 Year Historical Submission and Disclosure Categories



One ERCOT Officer disclosure in 2022:

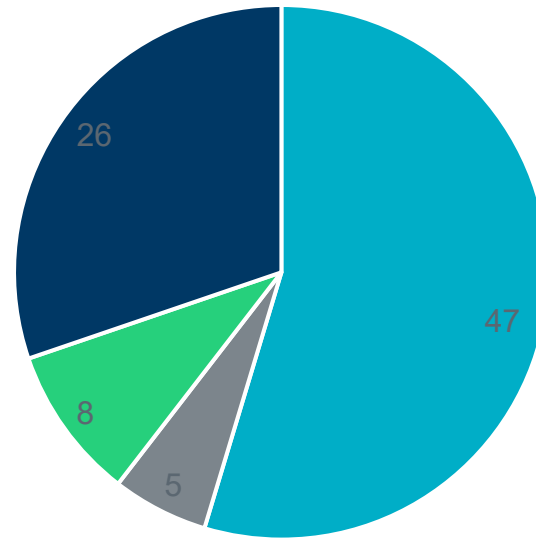
- Deferred compensation from prior employer (ERCOT Vendor)
- Initially disclosed prior to acceptance of employment with ERCOT
- Legal reviewed and concluded it was not a conflict under ERCOT's Conflict of Interest Corporate Standard (CS5.18) due to relatively small size of payments

**Key Takeaway:** Increase from 2021 to 2022 reflects greater number of secondary employment disclosures, likely due to increased employee awareness



# Types of Disclosures

## 2022 Employee Disclosures



- Market Participant/Vendor
- Family Employed by ERCOT
- Stock Ownership
- Secondary Employment

**Key Takeaway:** Majority of disclosures made in 2022 concern a family member's employment with an ERCOT Market Participant or Vendor. This typically can be resolved by employee and manager agreement that the employee will not share confidential information or take biased action to the advantage of the family member's employer.

# Typical Resolutions to Common Reports by Employees

Reported Issue	Common Resolution
Family member employed by Market Participant/Vendor	Admonishment (no information sharing, no biased action)
Commercial relationship with Market Participant/Vendor (e.g., land lease)	Admonishment (no information sharing, no biased action)
Ownership of Market Participant stock	Direction to divest and submit proof
Family member employed by ERCOT	No conflict but reminded of requirements of Nepotism Corporate Standard (CS5.16)
ERCOT employee with outside employment (but not a Market Participant/Vendor)	No conflict but reminded of requirements of Outside Employment Corporate Standard (CS5.21)
Receipt of gift from Market Participant/Vendor	Direction to return gift (unless of nominal value)