



**The Finance and Audit (F&A) Committee is
expected to consider
F&A Committee Agenda Item 4.1:**

***Recommendation regarding Committee
Charter***

at its meeting on February 26, 2024.

**The Board of Directors is expected to hear
the F&A Committee's recommendation on
this matter as part of the
F&A Committee Report
at the Board meeting
on February 27, 2024.**

**Attached are the Board and Committee
materials in relation to these agenda items.**



Date: February 20, 2024
To: ERCOT Board of Directors
From: Bill Flores, 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: February 27, 2024

Item No.: 9.1

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 and assessment annually by the F&A Committee (Committee). Pursuant to this requirement, the Committee annually reviews and votes to assess adequacy of the Committee's Charter and recommends any proposed changes to the Board.

To improve efficiency and maintain consistent corporate governance practices among Board Committees, ERCOT Legal proposes to revise the F&A Charter, as illustrated in **Attachment A**, to only require the Committee vote on the Charter during annual reviews when changes are recommended.

The F&A Committee is expected to review the F&A Committee Charter at its meeting on February 26, 2024 and is expected to recommend that the Board approve the existing Charter or any revisions to the Charter proposed by the F&A Committee at the February 27, 2024 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. An annual Committee vote on the Charter when no changes are recommended following Committee review isn't necessary to ensure the F&A Committee continues to address relevant issues and to assist the Board in providing necessary oversight.

Conclusion/Recommendation:

The F&A Committee is expected to review the F&A Committee Charter at its meeting on February 26, 2024 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 February 27, 2024, 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 February 27, 2024 meeting, the Board passed a motion approving the above Resolution by _____.

IN WITNESS WHEREOF, I have hereunto set my hand this ____ day of February, 2024.

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.
3. Annually, the Committee shall review the Company's forecast adequacy of the budgeted System Administration Fee for the following year.

D. The Committee's Duties and Responsibilities with respect to stand 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. As necessary, the Committee shall discuss with management and the independent auditor the planning and execution of the audit.
7. 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.
8. During any process through which the Company undergoes review by a rating agency, the Committee shall review disclosures prior to such disclosures being made by the Company to the rating agency.
9. Annually, the Committee shall review the Company's Internal Revenue Service Form 990 prior to filing.

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, 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 qualified 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. Annually, the Committee shall review the Committee Charter, and shall recommend to the Board any changes to the Committee Charter.
- ~~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.
8. The Committee shall participate in the Company's insurance renewals as follows:
 - a. Periodically, the Committee shall review insurance renewals; and
 - b. The Committee shall review and approve any significant changes to risk management programs/coverages.

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***A. Power to Investigate***

1. 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.
2. All employees are directed to cooperate as requested by the Committee or any of its Committee Members for Committee purposes.
3. 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.

B. Appointment of Workgroups or Task Forces

1. 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.

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

1. The Director of Internal Audit is the Chief Audit Executive at the Company.
2. The Company's Chief Audit Executive shall report directly to the Committee.
3. For administrative purposes, the Chief Audit Executive shall report to the Senior Vice President, General Counsel and Corporate Secretary.
4. The Committee shall approve an Annual Internal Audit Plan prepared by the Chief Audit Executive.

5. The Chief Audit Executive shall:
 - a. Manage the execution of the Annual Internal Audit Plan;
 - b. Conduct investigations at the direction of the Committee Chair and the Committee; and
 - c. 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

A. Meeting Agendas and Timing

1. 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.

B. Participation and Voting

1. 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.

C. Quorum and Committee Action

1. At all meetings of the Committee, fifty percent (50%) of the Committee Members shall constitute a quorum for the transaction of business.
2. 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.
3. For the purposes of voting, Committee Members who recuse themselves from voting on an issue shall not be counted as present for that vote.

D. Meeting Minutes

1. 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.