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**REPORTS OF THE ELECTRIC § PUBLIC UTILITY COMMISSION
RELIABILITY COUNCIL OF TEXAS §
 § OF TEXAS**

**NOTICE OF ANNUAL AUDIT
OF ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.**

COMES NOW, Electric Reliability Council of Texas, Inc. (ERCOT), in accordance with Public Utility Regulatory Act (PURA)¹ 39.159(a), (b), and (c), and provides notice of independent audit for the year 2023 of the independent organization certified by the Public Utility Commission of Texas (Commission) under PURA § 39.151 for the ERCOT power region.

**I. PUBLIC UTILITY REGULATORY ACT REQUIREMENTS FOR ANNUAL
AUDIT AND COMMISSION PUBLICATION OF AUDIT RESULTS**

PURA § 39.159(a) requires “[t]he commission annually shall have an independent audit made of each independent organization certified under Section 39.151 for the ERCOT power region.” Regarding the content of these audits, PURA § 39.159(b)(1) requires “[a]n audit under this section must examine: the independent organization's financial condition, including the organization's budget and expenses, and the salaries of the organization's employees and board members.” Further, PURA § 39.159(b)(2) requires “[a]n audit under this section must examine: compliance of the independent organization’s assets with all applicable commission standards.”

PURA § 39.159(c) requires “[n]ot later than the 60th day after the date an audit under this section is completed the commission shall: (1) publish the results of the audit on the commission's Internet website; and (2) submit the results of the audit to the state auditor and members of the standing committees of the legislature.”

**II. ERCOT INDEPENDENT AUDIT RESULTS AND ADDITIONAL
INFORMATION IN RESPONSE TO ANNUAL AUDIT REQUIREMENT**

The requirements of PURA § 39.159 are met in several ways. ERCOT is subject to an annual independent financial audit that thoroughly examines its financial condition, the results of

¹ Public Utility Regulatory Act, TEX. UTIL. CODE ANN. §§ 11.001-66.016.

which are published on the ERCOT website. In addition to the Commission’s public process to approve ERCOT’s budget, ERCOT also publishes detailed information on the budget, expenses, and salaries, and takes additional measures to ensure the reasonableness of compensation levels for employees.

A. Existing Annual Independent Audits regarding the Independent Organization’s Financial Condition

Under its governing documents and protocols, ERCOT is subject to annual audits that address the requirements of PURA § 39.151. ERCOT Bylaws² §§ 4.10, *Duties*, and 10.6, *Audit*, as well as ERCOT Protocol § 1.4.2, *ERCOT Finance and Audit Committee*, require management to have an independent audit performed by an independent certified public accounting firm. An annual independent financial audit is conducted to meet these requirements. This audit includes an examination of ERCOT books and records, and an opinion from the independent auditor that the financial statements present fairly, in all material respects, the financial position, results of operations (a/k/a changes in net assets), and cash flows of ERCOT. ERCOT assets, expenses, and salaries are accounted for under generally accepted accounting principles in compliance with the Commission requirements for ERCOT’s basis of accounting. ERCOT expenses, including employee salaries and remuneration of members of the ERCOT Board of Directors (Board), are included as operating expenses in the statement of changes in net assets, which as noted above is included within the scope of the annual independent financial audit. Annual audited financial statements are published online on the ERCOT website.³

B. Publication of ERCOT Budget and Financial Information, Including Expenses

ERCOT’s budget for 2024 is published online on the ERCOT website.⁴ ERCOT’s extensive budget review process is regulated by PURA § 39.151(d), including the requirement in § 39.151(d-1) that “(t)he commission shall establish a procedure to provide public notice of and public participation in the budget review process.” The process includes reviews and

² *Amended and Restated Bylaws of Electric Reliability Council of Texas, Inc.* (Dec. 20, 2022). The ERCOT Bylaws can be access on the *Governance* page of the ERCOT website at <https://www.ercot.com/about/governance>, under “Key Documents.”

³ Audited financial statements for 2023 can be accessed on the *Financial Information* page of the ERCOT website at <https://www.ercot.com/about/governance/FinancialInformation>, under “Audited Financial Statements.”

⁴ ERCOT’s budget for 2024 can be accessed on the *Financial Information* page of the ERCOT website at <https://www.ercot.com/about/governance/FinancialInformation>, under “Budgets.”

recommendation by the Board and its Finance and Audit (F&A) Committee as well as final approval by the Commission, and is thoroughly and publicly documented.

ERCOT also publishes on its website ERCOT's annual Internal Revenue Service (IRS) Form 990, *Return of Organization Exempt from Income Tax*; business expense reimbursements for members of the Board; business expense reimbursements for company officers; and company conference and travel expenditures.⁵ Board member compensation levels are set forth in Appendix A of the Board Policies and Procedures, a copy of which is available on the ERCOT website.⁶ Rules for reimbursement of business expenses are set forth in paragraph (b) of ERCOT Bylaws § 10.1, *Member Representatives' Expenses and Compensation of Certain Directors and TAC Representatives*.

C. Additional Information regarding Expenses and Salaries

In addition to annual audits of ERCOT's financial statements referred to above, the appropriateness of employee compensation levels is reviewed as part of an annual process performed by the ERCOT Human Resources department. In 2023, ERCOT subscribed to four national salary surveys for benchmarking internal jobs. These surveys encompass more than 7,500 companies, including all Independent System Operators (ISOs) and Regional Transmission Organizations (RTOs), enabling ERCOT to benchmark against similar entities and companies in the Central Texas region, as well as more broadly against the general national employer marketplace. Annually, employees are compared against the surveys based on function, job duties, and responsibilities. While this annual benchmarking is performed by ERCOT staff, and is not part of an independent audit, it is an extra step undertaken to additionally ensure thoughtful compensation planning. A third-party consultant periodically reviews compensation for specific functional areas as requested by ERCOT staff to ensure recommendations are consistent with the company's internal salary structure.

⁵ ERCOT's IRS Form 990s; business expense reimbursements for Board members; business expense reimbursements for company officers, and company conference and travel expenditures can be accessed on the *Financial Information* page of the ERCOT website at <https://www.ercot.com/about/governance/FinancialInformation>.

⁶ The Board Policies and Procedures (eff. Jun. 18, 2024) can be accessed on the *Governance* page of the ERCOT website at <https://www.ercot.com/about/governance>, under "Key Documents."

ERCOT executive positions are benchmarked to the six comparator ISOs/RTOs. This analysis is conducted annually by the ERCOT Human Resources department and at least biennially by an independent outside consultant. The components included in the executive compensation analysis are job analysis, job evaluation, and pay analysis. To complete the job analysis, the consultant benchmarks ERCOT executives to the other ISOs/RTOs based on job scope after reviewing span of control and job duties obtained from organizational charts, biographies, job descriptions, and other ISO/RTO human resources representatives. For job evaluation, ERCOT executive pay is benchmarked with three sources of peer data: annual IRS Form 990 and Federal Energy Regulatory Commission Form 1 filings; Mercer Survey of Executive Compensation & Benefits at United States Independent System Operators; and the Willis Towers Watson (WTW) *Energy Services Executive Pay Survey*. In the compensation analysis, the independent outside consultant reports ERCOT executive compensation relative to the market by executive based on Total Cash Compensation, which includes base salary and bonuses. ERCOT executive salaries met or exceeded the market for 2022 base pay in most cases; however, ERCOT total direct compensation continues to lag the market.

The Human Resources and Governance (HR&G) Committee of the Board, in coordination with the Commission, recommends to the Board the ERCOT CEO compensation upon new or revised employment contracts.⁷ The HR&G Committee receives annual updates on compensation for all ERCOT executive staff members who report to the CEO.

The HR&G Committee also periodically reviews compensation levels and expense reimbursement policies for members of the Board. The HR&G Committee Charter provides that the HR&G Committee shall annually review the Board's policies and procedures addressing Board member compensation and reimbursement of business expenses.⁸ In December 2022, the HR&G Committee recommended, and the Board approved, a change to Board business expense reimbursement policies. As revised, Board members may be reimbursed for all reasonable Board-

⁷ On August 16, 2022, the Board selected Pablo Vegas to serve as President and CEO for ERCOT. The complete employment agreement, including base salary and terms for annual Board approval of compensation level adjustments and incentives, can be accessed on the *Executives* page of the ERCOT website at <https://www.ercot.com/about/governance/executives>, under "Disclosure Documents."

⁸ Human Resources and Governance Committee Charter § IV(B)(1)(a)(ii) (Eff. Feb. 24, 2024), available at https://www.ercot.com/committees/board/hr_governance.

related expenses.⁹ In regard to Board compensation, as reported in ERCOT's 2023 *Notice of Annual Audit of Electric Reliability Council of Texas, Inc.*,¹⁰ at their meetings on June 19 and 20, 2023, the HR&G Committee recommended, and the Board approved, a change to Board member compensation levels effective July 1, 2023, which the Commission approved at its Open Meeting on June 29, 2023.¹¹ No changes have been made to Board member expense reimbursement policies or compensation levels since these two adjustments.

D. Compliance with Commission Standards

ERCOT's budget approval process is outlined in ERCOT Bylaws § 10.3, *Budget*. While not part of ERCOT's independent financial audit, ERCOT's budget review and approval process is structured, well governed, and publicly documented from development to final approval, with review and approvals by the Commission; the Board, including its F&A Committee; and ERCOT company management. ERCOT submits that the public process to review and participate in approval of this budget satisfies the requirements of PURA § 39.159(b)(1).

The exhaustive nature of stakeholder examination of ERCOT's budget and approval process, while not rising to the level of an audit, does provide all interested parties an opportunity to inspect and review key assumptions, access to discussion of the budget and approval by the Board, as well as public access to the Commission review and approval process.

III. COMMISSION PUBLICATION OF AUDIT RESULTS

PURA § 39.159(c) requires "[n]ot later than the 60th day after the date an audit under this section is completed the commission shall: (1) publish the results of the audit on the commission's Internet website; and (2) submit the results of the audit to the state auditor and members of the standing committees of the legislature."

The published audit results, budget, and expenses referenced herein are provided within the timeframe necessary for the Commission to publish the results to the internet, the state auditor,

⁹ See ERCOT Bylaws § 10.1(b).

¹⁰ *CY 2023 Reports of the Electric Reliability Council of Texas*, Docket No. 54444 (Jul. 14, 2024).

¹¹ *CY 2023 Reports of the Electric Reliability Council of Texas*, Docket No. 54444, Order (Jun. 29, 2023).

and legislative bodies and members. Similarly, under our existing filing requirements, the ERCOT budget is filed with the Commission biennially.

Dated: July 11, 2024

Respectfully Submitted,

/s/ Chad V. Seely

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