

## **Audit, Governance, and Finance Committee Charter**

### **I. Purpose**

- A. The Audit, Governance, and Finance Committee (the “Committee”) of the Texas Reliability Entity, Inc. (“Texas RE”) Board of Directors (“Board”) will provide assistance to the Board in fulfilling its oversight responsibility by reviewing, discussing, and making recommendations to the Board regarding audit, budget, finance, and governance matters. The Committee will routinely report its activities and recommendations to the Board.
- B. In discharging its responsibilities, the Committee is not itself responsible for the planning or conduct of audits or for any determination that Texas RE’s financial statements are complete and accurate or in accordance with generally accepted accounting principles, as this is the responsibility of management and the independent auditors.

### **II. Membership**

- A. The Committee will be comprised of the Independent Directors of the Board.
- B. The Committee will select a Chair through a majority vote of the Committee, or, if desired by the Committee, through a majority vote of the Board.

### **III. Meetings**

- A. The Committee will meet at least three times per year and at such other times as the Committee deems necessary or appropriate. Committee members may participate in Committee meetings by means of any communication system that allows all persons participating in the meeting to hear each other.
- B. Meetings of the Committee will be posted on the Texas RE website, and any individual may attend Committee meetings that are held in open (not executive) session. The Committee may hold meetings in executive session to discuss matters of a confidential nature, including ethics or personnel issues, confidential legal matters, negotiations, or other business of the Committee involving confidential information.
- C. The presence of a majority of the Committee members, in person, by communication system by which all persons participating in the meeting can hear each other, or by proxy, will constitute a quorum. At any meeting at which a quorum exists, the act of a majority of the members present, in person, by communication system by which all persons participating in the meeting can hear each other, or by proxy, shall be the act of the Committee.
- D. The Chair, in consultation with the Texas RE CEO and General Counsel and other Committee members, shall develop the agenda, and determine the frequency and length of meetings. The Chair shall establish such other rules, as may from time to time be necessary and proper for the conduct of the Committee.
- E. Minutes for all meetings will be prepared by Corporate Secretary or his or her designee to document the Committee’s discharge of its responsibilities. The Committee shall make regular reports to the Board of Directors.

## **AUDIT, GOVERNANCE, AND FINANCE COMMITTEE CHARTER**

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- F. The Committee may request that any officers or employees of Texas RE attend Committee meetings and provide such pertinent information as the Committee requests. The Committee will meet with management as needed and shall meet with the independent auditors in executive session at least annually.

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

- A. Review quarterly financial reports.
- B. Annually review Texas RE's preliminary budget proposal.
- C. Receive a complete copy of IRS Form 990 prior to filing.
- D. Recommend to the Board the engagement and compensation of the independent auditors to annually audit the Texas RE financial statement.
- E. Discuss with the independent auditors the overall scope, plans and budget for the audit, including the adequacy of staffing and other factors that may affect the effectiveness of the audit.
- F. Receive periodic reports from the independent auditors, at least annually, discuss these reports with the independent auditors, and if so determined by the Committee, take appropriate action to satisfy itself of the independence of the auditors.
- G. Review the performance of the independent auditors annually, and in doing so, consult with management and obtain and review a report by the independent auditors describing Texas RE's internal control procedures, material issues raised by an independent auditor's most recent internal quality control review, or by any inquiry or investigation by governmental authorities within the preceding five years and the response of the independent auditors.
- H. Consider whether or not there should be a regular rotation of the independent audit firm.
- I. Review with the independent auditors any problems or difficulties the auditors may have encountered in connection with the annual audit or otherwise, any management letters provided to the Committee and Texas RE's responses. Such review shall address any difficulties encountered in the course of the audit work, including any restrictions on the scope of activities or access to required information, any disagreements with management regarding generally accepted accounting principles and other matters, material adjustments to the financial statements recommended by the independent auditors.
- J. Review Texas RE's ethics and conflict of interest policies and any ethical or conflicts of interest issues.
- K. Periodically review with management, including the General Counsel, and the independent auditors, if applicable, any correspondence with, or other action by, regulators or governmental agencies, and any employee or third-party complaints or reports that raise concerns regarding Texas RE's financial statements, accounting or auditing matters or compliance with Texas RE ethics agreements, policies or procedures.

## **AUDIT, GOVERNANCE, AND FINANCE COMMITTEE CHARTER**

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- L. Review Texas RE's procedures for the receipt, retention, and treatment of complaints received by Texas RE regarding concerns relating to accounting, internal accounting controls, auditing, or ethics matters and for the confidential, anonymous submission by employees or third parties of such concerns.
- M. Recommend and consider other recommendations for modifications to policies or documents relating to Texas RE's governance, including the Texas RE Bylaws.
- N. Periodically meet with the General Counsel and other appropriate legal staff, to review material Texas RE legal affairs and Texas RE's compliance with applicable law and Texas RE's Delegation Agreement.
- O. Regarding compensation for the CEO and other Officers:
  - 1. Oversee the annual evaluation of CEO compensation and benefits, including a market-based compensation study at least every two years, and provide a recommendation to the Board regarding appropriate CEO compensation.
  - 2. Oversee the annual evaluation of compensation for other Officers, including a market-based compensation study at least every two years, and provide input to the CEO regarding appropriate compensation for other Officers.
- P. If needed, study and investigate any matter within the Committee's scope and inform the Board of all actions and the results of any studies or investigations.