

TEXAS RELIABILITY ENTITY CORPORATE POLICY

Document Name:	Ethics and Conflicts of Interest Corporate Policy
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Owner:	General Counsel
Governs:	Texas RE Personnel and Board of Directors
Approved:	Board of Directors

I. Policy Statement

The purpose of this corporate policy is to document the obligation of Texas Reliability Entity, Inc. (Texas RE) Board members, employees, and contractors or consultants performing delegated functions (collectively, Texas RE Representatives) to conduct Texas RE business and activities ethically, with integrity, and to refrain from situations where they have any conflict of interest (Conflict). Texas RE Representatives shall not engage in activities that would interfere with their exercise of independent judgment in carrying out their responsibilities for Texas RE. Texas RE Representatives must protect Texas RE's interest in performing job and Board services and when contemplating entering into any transaction that might benefit or have the appearance of benefiting them personally or financially.

Texas RE is a tax exempt organization. This policy is intended to supplement but not replace any state and federal laws governing conflicts of interest applicable to non-profit and charitable organizations.

II. Requirements

- A. Texas RE Representatives must conduct Texas RE business and activities with total objectivity and must not seek or obtain a personal or financial benefit (except for their documented Texas RE compensation) from performance of their job or Board services. Because even the appearance of a Conflict could be detrimental to Texas RE's reputation, Texas RE Representatives shall not take actions that could create a Conflict or the appearance of a Conflict.
- B. A Conflict arises when: (1) a person is in a position to derive a personal or financial benefit based on his or her actions or status as a Texas RE Representative, or (2) the action of any Texas RE Representative is in any way detrimental to the best interests of Texas RE. A "personal or financial benefit" includes any ownership, investment, or compensation interest of the person or the person's immediate family (any spouse or dependent) or other household members. Not all personal or financial interests are Conflicts, but they must nonetheless be disclosed to the Texas RE Legal Department (Legal Department), who will review them and notify the Texas RE Representative of any restrictions.

C. Conflicts to avoid and potential Conflicts to report include:

1. Direct Business Relationships. Texas RE Representatives and members of their immediate families and households shall not have direct business relationships, other than retail customer relationships, with any NERC registered entity. A direct business relationship includes but is not limited to holding a position as an employee, officer, or director in the entity, regardless of whether it is a paid position. Texas RE employees are specifically prohibited from engaging in outside work for NERC registered entities or their affiliates, or from receiving payment for outside consulting services, compliance advice, or compliance publications for such companies.
 - (a) Exception: An Affiliated Director is allowed to have direct business relationships with his or her employer and the employer's affiliates, but must recuse himself or herself from participating in or voting on compliance matters concerning such entities.
2. Stocks and Bonds. Texas RE Representatives and members of their immediate families and households shall not own stocks or bonds of NERC registered entities, except as part of broadly diversified mutual funds or similar funds. To the extent such persons own non-qualifying stocks or bonds, these must be divested or placed in a blind trust.
 - (a) Exception: An Affiliated Director is allowed to own stocks or bonds of his or her employer and the employer's affiliates, but must recuse himself or herself from participating in or voting on compliance matters concerning such entities.
3. Gifts and Payments. Texas RE Representatives and members of their immediate families and households shall not seek or accept gifts, payments, favors, loans, or services (except on the same terms and conditions as offered to the general public), from any NERC registered entity or current or prospective vendor of Texas RE.
 - (a) Exception: Non-cash nominal gifts and meals valued at less than \$100 customarily provided in the ordinary course of business will generally not give rise to a Conflict.
 - (b) Exception: An Affiliated Director is allowed to receive gifts, payments, favors, loans, or services from his or her employer and the employer's affiliates, but must recuse himself or herself from participating in or voting on compliance matters concerning such entities.
4. Employee Relationships with Vendors. The Legal Department will maintain a list of vendors who receive annual payments of \$5,000 or more from Texas RE (Vendor List), and will make the list available to employees. Each Texas RE employee must report if the employee or any member of his or her immediate family or household has a direct business relationship (other than a retail customer relationship) or a direct ownership interest in a company on the Vendor List. A

direct business relationship includes but is not limited to holding a position as an employee, officer, or director in the entity, regardless of whether it is a paid position. Employees with such interests typically will be restricted from being involved in purchasing decisions involving the identified vendor.

5. Pensions. Texas RE employees and contractors or consultants performing delegated functions must report on their Ethics Agreement if they have a vested pension from a NERC registered entity. The mere existence of such a pension typically will not rise to the level of being a Conflict, but such circumstances will be reviewed on a case-by-case basis.
- D. **Training**. All Texas RE Representatives must receive appropriate ethics and antitrust training annually.
- E. **Ethics Agreements**. Texas RE Representatives must affirm their understanding of and agreement to follow this Ethics and Conflicts of Interest Corporate Policy by signing an Ethics Agreement prior to employment, engagement, or Board service with Texas RE, and on an annual basis.
1. Texas RE Representatives must disclose all actual and potential Conflicts at the time they sign and re-affirm their Ethics Agreement and at any other time they become aware of such Conflicts.
 2. The Legal Department shall review all such disclosures and notify individuals of any required restrictions regarding their employment, consulting, or Board service. After full disclosure by an individual, the Legal Department may agree to conditions that appropriately limit any potential influence from a Conflict.
 3. The Legal Department will maintain a list of employees and consultants engaged in compliance monitoring and enforcement activities, detailing any restrictions on the ability of these individuals to perform such activities relating to any specific registered entity. Such individuals shall not participate in compliance monitoring and enforcement activities concerning a NERC registered entity if they were employed by that entity within the previous two years.
 4. Texas RE Representatives with reason to believe that other Texas RE Representatives have failed to disclose actual or possible Conflicts shall immediately inform the Legal Department of the basis for the belief.
- F. **Ethics Reports**. Texas RE will maintain a mechanism to allow anyone to report (anonymously if desired) allegations of fraud, unethical business conduct, questionable or inappropriate accounting practices, violations of the Health Insurance Portability and Accountability Act (HIPAA), other violations of law, or violations of Texas RE Ethics Agreements. Individuals may submit anonymous reports of any ethics or Conflict issues (Ethics Reports) using the Texas RE anonymous reporting tool, which is currently at www.ethicspoint.com.
1. Ethics Reports shall be maintained confidentially and will be reviewed by the CEO and General Counsel. If any report names or makes an allegation about the CEO or General Counsel, such officer shall be restricted from seeing the report.

2. The Legal Department shall review all Ethics Reports involving Texas RE Personnel other than Texas RE officers. The Legal Department shall afford any such personnel the ability to provide information about and explain the circumstances surrounding any Ethics Report, including alleged Conflicts. If after reviewing all relevant information and making further investigation as warranted, the Legal Department determines that an individual has violated the law or a company policy, the Legal Department will inform the Texas RE CEO, who may take appropriate disciplinary and corrective action.
 3. The Audit, Governance, and Finance Committee shall review all Ethics Reports regarding the Texas RE CEO, General Counsel, or other corporate officer. The Committee Chair will notify the other Board members of such Ethics Reports in executive session. The Committee will investigate and take appropriate action regarding such Ethics Reports.
- G. Recusal. Any Board member with a Conflict must recuse himself or herself from any participation and action on the conflicted matter. If the Board member discovers an undisclosed actual or potential Conflict, the Board member must disclose it to the Legal Department, and the Legal Department shall determine whether there is a Conflict that should result in: (1) recusal of the Board member from action and participation in any matter, or (2) removal of the Board member. If the Board member disagrees with the Legal Department's determination, the Board member shall be afforded the opportunity to explain any alleged Conflict to the Board of Directors, who shall make a final determination of whether a Conflict exists and what action, if any, should be taken as a result.

III. Roles and Accountabilities

- A. All Texas RE Representatives are responsible for understanding and following this corporate policy.
- B. If Texas RE Representatives have questions regarding their responsibilities under this corporate policy, they should refer their questions to the Texas RE General Counsel.