

Agenda

Corporate Governance and Human Resources Committee

November 3, 2021 | 11:30 a.m. – 12:15 p.m. Eastern

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Introductions and Chair's Remarks

NERC Antitrust Compliance Guidelines and Public Announcement*

Agenda Items

1. **Minutes* — Approve**
 - a. August 11, 2021 Meeting
2. **Board of Trustees Self-Assessment and MRC Assessment of Board of Trustees Effectiveness Survey* — Approve**
3. **Board of Trustees Proposed Compensation Changes* — Accept and Recommend for Board of Trustees Approval**
4. **Human Resources and Staffing* – Update**
5. **Other Matters and Adjournment**

*Background materials included.

Antitrust Compliance Guidelines

I. General

It is NERC's policy and practice to obey the antitrust laws and to avoid all conduct that unreasonably restrains competition. This policy requires the avoidance of any conduct that violates, or that might appear to violate, the antitrust laws. Among other things, the antitrust laws forbid any agreement between or among competitors regarding prices, availability of service, product design, terms of sale, division of markets, allocation of customers or any other activity that unreasonably restrains competition.

It is the responsibility of every NERC participant and employee who may in any way affect NERC's compliance with the antitrust laws to carry out this commitment.

Antitrust laws are complex and subject to court interpretation that can vary over time and from one court to another. The purpose of these guidelines is to alert NERC participants and employees to potential antitrust problems and to set forth policies to be followed with respect to activities that may involve antitrust considerations. In some instances, the NERC policy contained in these guidelines is stricter than the applicable antitrust laws. Any NERC participant or employee who is uncertain about the legal ramifications of a particular course of conduct or who has doubts or concerns about whether NERC's antitrust compliance policy is implicated in any situation should consult NERC's General Counsel immediately.

II. Prohibited Activities

Participants in NERC activities (including those of its committees and subgroups) should refrain from the following when acting in their capacity as participants in NERC activities (e.g., at NERC meetings, conference calls and in informal discussions):

- Discussions involving pricing information, especially margin (profit) and internal cost information and participants' expectations as to their future prices or internal costs.
- Discussions of a participant's marketing strategies.
- Discussions regarding how customers and geographical areas are to be divided among competitors.
- Discussions concerning the exclusion of competitors from markets.
- Discussions concerning boycotting or group refusals to deal with competitors, vendors or suppliers.

- Any other matters that do not clearly fall within these guidelines should be reviewed with NERC's General Counsel before being discussed.

III. Activities That Are Permitted

From time to time decisions or actions of NERC (including those of its committees and subgroups) may have a negative impact on particular entities and thus in that sense adversely impact competition. Decisions and actions by NERC (including its committees and subgroups) should only be undertaken for the purpose of promoting and maintaining the reliability and adequacy of the bulk power system. If you do not have a legitimate purpose consistent with this objective for discussing a matter, please refrain from discussing the matter during NERC meetings and in other NERC-related communications.

You should also ensure that NERC procedures, including those set forth in NERC's Certificate of Incorporation, Bylaws, and Rules of Procedure are followed in conducting NERC business.

In addition, all discussions in NERC meetings and other NERC-related communications should be within the scope of the mandate for or assignment to the particular NERC committee or subgroup, as well as within the scope of the published agenda for the meeting.

No decisions should be made nor any actions taken in NERC activities for the purpose of giving an industry participant or group of participants a competitive advantage over other participants. In particular, decisions with respect to setting, revising, or assessing compliance with NERC reliability standards should not be influenced by anti-competitive motivations.

Subject to the foregoing restrictions, participants in NERC activities may discuss:

- Reliability matters relating to the bulk power system, including operation and planning matters such as establishing or revising reliability standards, special operating procedures, operating transfer capabilities, and plans for new facilities.
- Matters relating to the impact of reliability standards for the bulk power system on electricity markets, and the impact of electricity market operations on the reliability of the bulk power system.
- Proposed filings or other communications with state or federal regulatory authorities or other governmental entities.
- Matters relating to the internal governance, management and operation of NERC, such as nominations for vacant committee positions, budgeting and assessments, and employment matters; and procedural matters such as planning and scheduling meetings.

DRAFT Minutes

Corporate Governance and Human Resources Committee Meeting

August 11, 2021 | 11:00-11:30 a.m. Eastern

Virtual Meeting

Call to Order

Chair George S. Hawkins called to order a duly noticed open meeting of the Corporate Governance and Human Resources Committee (the “Committee”) of the Board of Trustees (“Board”) of the North American Electric Reliability Corporation (“NERC” or the “Company”) on August 11, 2021, at 11:00 a.m. Eastern, and a quorum was declared present.

Present at the meeting were:

Committee Members

George S. Hawkins, Chair
Jane Allen
Robert G. Clarke
Colleen Sidford
Roy Thilly
Kenneth W. DeFontes, Jr., *ex officio*

Board Members

Larry Irving
Suzanne Keenan
Susan Kelly
Robin E. Manning
Jim Piro
James B. Robb, NERC President and Chief Executive Officer

NERC Staff

Tina Buzzard, Assistant Corporate Secretary
Manny Cancel, Senior Vice President and CEO of the E-ISAC
Damon Epperson, Director of Human Resources
Howard Gugel, Vice President, Engineering and Standards
Stan Hoptroff, Vice President, Business Technology
Mark Lauby, Senior Vice President and Chief Engineer
Sônia Mendonça, Senior Vice President, General Counsel and Corporate Secretary
Lauren Perotti, Senior Counsel
Janet Sena, Senior Vice President, External Affairs
Andy Sharp, Vice President and Chief Financial Officer
Mechelle Thomas, Vice President, Compliance

Chair’s Remarks

Mr. Hawkins welcomed participants to the meeting. He noted that the Committee met in closed session on June 11 and August 9, 2021, and will meet again on September 28, 2021, to review the Board of Trustees Compensation study. He noted that recommendations from this study will be reviewed during the November meeting.

NERC Antitrust Compliance Guidelines

Mr. Hawkins directed the participants' attention to the NERC Antitrust Compliance Guidelines included in the agenda package and indicated that all questions regarding antitrust compliance or related matters should be directed to Ms. Mendonça.

Minutes

Upon motion duly made and seconded, the Committee approved the May 12, 2021, meeting minutes as presented in the advance agenda package.

Board of Trustees Self-Assessment and MRC Assessment of Board of Trustees Effectiveness Survey

Mr. Hawkins introduced the topic, noting the importance of the Board of Trustees Self-Assessment and MRC Assessment of Board of Trustees effectiveness survey for monitoring Board performance.

Ms. Perotti presented the topic, referencing the draft proposed questions included in the advance agenda package. She noted that the proposed questions are similar to those used over the last few years to aid in more meaningful analysis of year over year results. Ms. Perotti asked the Committee to provide any comments, with the goal of approving the final assessment at the November 2021 meeting. No comments were provided.

Human Resources and Staffing Update

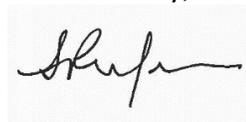
Mr. Epperson provided the human resources and staffing update, remarking on recent efforts to strengthen the company's culture and enhance its ability to attract, retain, and engage talent. He highlighted the significant advancements NERC has made in improving its culture despite the challenges of the COVID-19 pandemic, including implementing the NERC Connected Workforce model and enhancements to the performance management process. Mr. Robb reported that NERC is taking a measured and deliberate approach to the re-opening of its offices that takes into account local conditions, with the full re-openings currently scheduled for November.

The Committee engaged in discussion of NERC's human resources initiatives. Mr. Hawkins commended NERC staff on their efforts in this area. Mr. DeFontes suggested that staff consider ways to evaluate how NERC's culture improvement efforts are advancing NERC's relationships with its stakeholders.

Adjournment

There being no further business before the Committee, the meeting was adjourned.

Submitted by,



Sônia Mendonça
Corporate Secretary

Board of Trustees Self-Assessment and MRC Assessment of Board of Trustees Effectiveness Survey

Action

Approve

Summary

NERC management has prepared the attached draft of the assessment for the annual Board Self-Assessment and the MRC Assessment for Committee review. The proposed survey is divided into four sections:

- Overall Effectiveness
- Strategy
- Oversight
- Stakeholder Relations and Board Functioning

The questions and answers within each section were amended in 2018 to aide in more meaningful year-over-year analytics, direction, and areas of improvement for the Board.

Management recommends that the Committee approve the final assessment and the following timeline for the 2021 Board Self-Assessment and MRC Assessment of Board of Trustees Effectiveness Survey:

- Surveys distributed by November 8, 2021.
- Responses due by December 13, 2021.
- Draft summary of results provided to the Board and CGHRC Chair for review by January 10, 2022.
- Results will be presented for review and discussion at the February 2022 CGHRC and Board meetings.

As a reminder, the Board of Trustees governance year-end Committee surveys coordinate with the end of the Committee governance year; the survey will be conducted after the February meetings, and results reported in May.

Board of Trustees/Member Representatives Committee Assessment Questions

Thank you for taking this assessment of the NERC Board of Trustees. The questions should take about 10 minutes to complete.

Note: The questions are divided into four sections:

- Overall Effectiveness
- Strategy
- Oversight
- Stakeholder Relations and Board Functioning

I. Overall Effectiveness

- 1. Overall, how effective is the Board of Trustees at performing their responsibilities?**
 - a. Very effective
 - b. Effective
 - c. Neither Effective nor ineffective
 - d. Ineffective
 - e. Very ineffective
 - f. Uncertain

- 2. [Board only] Overall, how satisfied are you personally with the job you do working on the Board of Trustees?**
 - a. Very satisfied
 - b. Satisfied
 - c. Neither Satisfied nor Dissatisfied
 - d. Dissatisfied
 - e. Very dissatisfied
 - f. Uncertain

- 3. What are the Board of Trustees' MOST important functions at NERC? (Select No More Than 3)**
 - a. Setting company and management priorities
 - b. Guiding and approving the development of annual budgets and business plans
 - c. Providing vision for the future
 - d. Ensuring adherence to NERC's mission, vision and values
 - e. Overseeing NERC management
 - f. Approving NERC's Senior Management and Officer Hires
 - g. Uncertain
 - h. Other (please specify)

4. Comments on Board of Trustees Overall Effectiveness

II. Strategy

1. Please rate the Board’s effectiveness in overseeing NERC Management or staff to produce a final annual budget and business plan.

- a. Very effective
- b. Effective
- c. Neither effective nor ineffective
- d. Ineffective
- e. Very ineffective
- f. Uncertain/Not applicable

2. Please rate how effective the Board of Trustees is at each of their following functions? [Very effective, Effective, Neither effective nor ineffective, Ineffective, Very ineffective, Uncertain/Not applicable]

- a. Staying in tune with issues and trends affecting NERC and the industry
- b. Setting company priorities
- c. Providing leadership
- d. Incorporating the international charter of the North American bulk power system

3. How satisfied are you with how the board incorporates advice and/or recommendations from the MRC?

- a. Very satisfied
- b. Satisfied
- c. Neutral
- d. Dissatisfied
- e. Very dissatisfied
- f. Uncertain/Not applicable

4. Comments on Strategy

III. Oversight

1. Please rate the **amount of involvement** the Board has in each of the following: *[Too much, About the right amount, Too little, Uncertain]*
 - a. ERO Enterprise's (NERC and the Regional Entities) annual business planning and budgeting process
 - b. Day-to-day management by NERC's CEO
2. Rate the Board's effectiveness at **monitoring** each of the following: *[Very effective, Effective, Neither effective nor ineffective, Ineffective, Very ineffective, Uncertain/Not applicable]*
 - a. Efficiency (cost effectiveness) of ERO Enterprise processes
 - b. Standards Development
 - c. Compliance Monitoring and Enforcement
 - d. Assessments
 - e. E-ISAC
 - f. Risk

3. Comments on Board Oversight

IV. Stakeholder Relations and Board Functioning

1. Please indicate your agreement or disagreement with each of the following statements about **stakeholder relations**. *[Strongly agree, Agree, Neither agree nor disagree, Disagree, Strongly disagree, Uncertain]*
 - a. The Board listens to input from the MRC.
 - b. The Board listens to input from NERC management.
 - c. The Board listens to input from Regional Entities
 - d. The Board works effectively with management.
 - e. The Board maintains a positive working relationship with Federal regulators.
 - f. The Board maintains a positive working relationship with State regulators.
 - g. The Board maintains a positive working relationship with Canadian federal and provincial regulators.
2. **[Board only]** Please indicate your agreement or disagreement with each of the following statements **board functioning**. *[Strongly agree, Agree, Neither agree nor disagree, Disagree, Strongly disagree, Uncertain]*
 - a. Board meetings are efficient.
 - b. Board meetings are an effective use of my time.
 - c. The frequency of Board meetings is appropriate.
 - d. Board members communicate effectively with each other.

- e. The Board has established procedures to ensure meetings are able to be run effectively, including delivery of agendas and appropriate background material in time to prepare in advance of meetings.

3. Comments on Stakeholder Relations and Board Functioning

Final Comments/Suggestions/Requests

Thank you for taking part in this important assessment.

Board of Trustees Proposed Compensation Changes

Action

Accept and recommend Board of Trustees approval of any changes to Trustee compensation.

Summary

In accordance with the requirements of the NERC Governance Guidelines, its Mandate, and the Settlement Agreement with FERC relating to the 2012 audit, the Corporate Governance and Human Resources Committee (Committee) conducts an annual review of Trustee compensation and conducts periodic studies regarding the structure and amount of Trustee compensation.

In March 2021 at the direction of the Committee, NERC management conducted a Request for Proposal (RFP) process to identify and select an independent consultant with extensive national expertise in board compensation analysis to conduct a Board of Trustees Compensation Study. Four companies responded, the Committee at its April 22 closed meeting reviewed the RFP submissions and selected Meridian Compensation Partners, LLC (Meridian) as the successful firm.

Meridian conducted a market study of board compensation on behalf of NERC to aid the Committee in its review of the NERC Trustee compensation program (a responsibility of the Committee under its Mandate) and to assist the Committee in determining whether to recommend any changes to the program.

Meridian compared current Trustee compensation and the structure of the Board's current compensation program to the market perspectives used in 2018 (last study completed by Willis Towers Watson), also updating its view of overall compensation trends. The summary of findings includes: (i) comparing the "typical Trustee's" compensation to the "typical Director's" compensation; (ii) comparing the NERC Board Chair's compensation to the market perspectives for non-executive chairs (i.e., independent chairs of boards where the CEO of the organization is not also the board chair); (iii) comparing the Board's committee chair compensation to the market perspectives; (iv) comparing the workload of NERC Trustees to the market perspectives, and (v) reviewing trends in director compensation.

Key findings by Meridian include:

1. NERC's cash compensation is above the tax exempt peer data, but notably below the 25th percentile of total compensation value for publicly-held entities. Market median data for ISO/RTOs has historically been ~\$105,000 to \$115,000.
 - a. Average of the two market reference points is ~\$156,500
 - b. NERC's total compensation is ~15% below this market midpoint
2. Chair compensation is below the 25th percentile for the three most prevalent committees relative to the for-profit peer group.

3. The additional compensation for Board Committee chairs is below the median provided to committee chairs at the three most common types of committees at both IOUs and general industry companies.
 - a. NERC Board Committee Chairs additional compensation is ~\$10,000
 - b. Peer Company Audit, Compliance, Nominating/Governance Committees' median additional compensation is ~\$20,000, ~\$18,250, ~\$15,000 respectively
4. The workload of NERC Trustees has increased in recent years and continues to be among the highest at each of the market perspectives.
5. Director pay continues to increase as role responsibility becomes greater, generally, director pay increases 3-5% annually.
6. In 2020, many companies deferred director pay adjustments in light of the COVID-19 pandemic. It is anticipated that director pay adjustments will be made for the 2022 fiscal year.
7. Recruiting directors may become more challenging as the role becomes more requiring and the pool of candidates becomes smaller.

Based on its findings, Meridian recommended that NERC maintain its current retainer compensation approach (rather than per meeting fees) consisting of:

1. Trustee annual retainer
2. A retainer for each committee chair
3. A retainer for the non-executive chair

Meridian further noted that given the increased workload of Trustees, the current position of trustee compensation in the bottom half of the competitive pay range, and the increase in market pay levels since the last study, an increase in Trustee compensation is warranted. Under NERC's Governance Guidelines, the Committee is required to determine the dollar range between the 50th percentile of RTOs/ISO independent director compensation and the 25th percentile for IOU independent director compensation.

Key Considerations for the Committee's Review and Discussion

In determining its recommendation to the Board with respect to Board compensation, the Committee intends to consider the following:

1. The findings and recommendations contained in the Meridian report.
2. The need to consider any compensation adjustment in light of NERC's overall budget.
3. That the workload for all Trustees has continued to be at a level higher than any of the peer groups.
4. That the Board Chair, Vice Chair and Committee chairs have substantial additional responsibilities and time commitments. Additionally, members of the Board serve as liaisons to the Standards Committee and the Reliability and Security Technical Committee.
5. That the current compensation structure (i.e., utilizing fixed retainers) is consistent with best practice trends in director compensation.

6. That it remains important for NERC to be able to recruit and retain qualified and quality individuals to board service, and that NERC competes directly with Regional Entities, ISOs and RTOs, IOUs, and even private sector companies in attempting to attract such individuals to NERC.
7. That the conflict of interest requirements at NERC for Trustees, which include financial interest and investment prohibitions, employment/consulting prohibitions, and industry board service prohibitions, and that NERC is non-profit and offers no stock options or benefits, reinforce the need for NERC to offer competitive compensation to Trustees, understanding the limits NERC places on what might be other opportunities for financial reward.

Potential Approach

In its review of the study and with consideration of the factors listed above, the Committee has discussed a possible approach to adjusting Board compensation. The Committee is currently considering the following option and will discuss it at its open meeting on November 3, when public input is invited.

	Current Program	2022	2023	2024
Cash retainer	\$127,500	No change	+ \$3,500 (moves to \$131k)	+ \$4,000 (moves to \$135k)
Committee Retainers (avg)	\$5,455	No change	TBD	TBD
Total average pay	\$132,955	No change	\$136,455	\$140,455
Difference to market (blend of NFP & Public)	- 15% (-\$23.5k)	No change	- 13% (-\$20.0k)	- 10% (-\$16.0k)

1. Establish a target annual retainer for each Trustee of \$135,000 (currently \$127,500), which is below the median of the range contemplated by the NERC Governance Guidelines. The new retainer would be implemented annually over the next three years with no increase in 2022, a \$3,500 increase in 2023, and a \$4,000 increase in 2024. This will assist in the potential recruitment of board candidate(s) for the next several years.
2. Continue annual retainer for the Board Chair of \$47,500, which is below the median of the range contemplated by the Governance Guidelines.
3. Continue annual retainer for the Board Committee Chairs of \$10,000, with an annual review in 2023 and 2024 if an adjustment is warranted.
4. Continue the retainer for the Board Vice Chair at \$5,000, with a separate retainer of \$5,000 for the Trustee who is designated as the liaison to the Standards Committee and the Trustee designated as the liaison to the Reliability and Security Technical Committee.

While it is the expectation of the Committee that this compensation adjustment (assuming some action on this proposal or any alternate) should permit NERC to solicit and retain qualified individuals as independent trustees through 2024, in accordance with its Mandate the Committee will review compensation each year to confirm that circumstances remain as anticipated in this effort (including the opportunity for MRC/stakeholder/public comment). It is also expected that the Committee will conduct another formal review of compensation in 2024 for subsequent years to assure that NERC remains competitive in the market for independent trustees.

Human Resources and Staffing

Action

Update

Background

NERC management is in its second year of re-imagining the processes by which we attract, retain, and engage employees, continuing to make investments in programs and tools for staff wellbeing and productivity to ensure we're appropriately positioned to meet our human capital needs for the next 5 years and beyond.

Key milestones of the re-imagination have included the establishment of multiple employee resource (i.e. support) groups, frequent interactive town halls to hear from staff, establishment of the Connected Workforce or flexible work model, and training investments for success in the virtual environment, development-based performance management, and Transformational Leadership.

For the remainder of the year, the company will focus on reinforcing Transformational Leadership principles, making further enhancements in performance management, and closely monitoring federal, state, and local COVID-guidance to ensure the staff are comfortable as the company evaluates its office reentry plans. Currently, the company has 99% staff approval of its handling of the pandemic and has continued low-attrition.

As the company continues to execute against its long-term strategic people and culture plan, management will make periodic updates to the board on key milestones and progress.