



RELIABILITY FIRST

PUBLIC

Minutes

Board of Directors • Compensation Committee

December 6, 2023

Market Square Conference Center, Concourse Level
801 Pennsylvania Ave. NW • Washington, DC 20004

Closed Session

Call to Order – Chair Lesley Evancho called to order a duly noticed closed meeting of the Compensation Committee (Committee) on December 6, 2023, at 9:00 a.m. (ET). A quorum was present, consisting of the following Committee members: Lesley Evancho, Chair; Ken Seiler, Vice Chair; Joanna Burkey; Pat Cass; Antonio Smyth; and Jennifer Sterling. A list of others present during the Committee meeting is set forth in Attachment A.

Appoint Secretary to Record Minutes – Chair Evancho designated Niki Schaefer, ReliabilityFirst's (RF) Vice President and General Counsel, as the secretary to record the meeting minutes.

Antitrust Statement – Ms. Schaefer advised all present that this meeting is subject to, and all attendees must adhere to, RF's Antitrust Compliance Guidelines.

Approve Compensation Committee Meeting Minutes – Chair Evancho presented draft minutes from the August 23, 2023 Committee meeting, which were included in the agenda package. Upon a motion duly made and seconded, the Committee approved the minutes as presented. Ms. Evancho noted that the Committee had already reviewed and approved the 2024 corporate goals via email prior to the meeting to save time on the agenda.

Staffing Demographics & Diversity Strategy Update – Hue DeLuca, RF's HR Manager, opened by discussing the 12 new employees hired in 2023. She discussed changes made to the recruiting process, which is resulting in strong slates of diverse candidates. Ms. Evancho commented on the speed of filling positions, and Beth Dowdell, RF's Senior Director of Corporate Services, noted some improvements HR is working on for the hiring process that should improve these numbers further. Ms. Burkey asked if candidates are still negotiating salary, and Ms. Dowdell noted that this has been occurring the most in the engineering roles. Ms. Evancho encouraged the HR team to look at the data by the time to fill a position from the date the job is accepted and the start date.

Ms. DeLuca discussed the turnover/retention rates and some activities of the staff advisory committee related to employee engagement. She then highlighted DEI activities happening within RF. Mr. Smyth asked about the work from home schedule, and Mr. Gallagher discussed the one day a week in office schedule and how it is working well for recruiting

purposes. A discussion was had about the challenges of recruiting in light of peoples' desire to work from home. Ms. Dowdell noted that 25% of RF staff are fully remote. Ms. Burkey suggested the team look at management promotions over the course of years to see if they are coming from the outside as a result of people not being in the office. Ms. Dowdell noted that manager development and individual contributor development is a gap that needs to be addressed so that internal candidates are ready for manager roles when they open up. Mr. Gallagher noted that in terms of ethnicity, RF is making positive progress, and the Committee agreed.

2023 Corporate Goals Performance and Determination of Incentive Award – Ms. Dowdell gave a high-level overview of progress on the 2023 corporate goals. She began by discussing the structure of the goals, and noted that when the Committee discussed the goals in August, the enforcement goal was in jeopardy. Hiring two quality candidates at the same time (by pulling in a 2024 hire early) allowed for consolidated onboarding to get two attorneys up-to speed efficiently while the rest of the team picked up additional tasks to ensure the enforcement department was able to meet its goals. Ms. Dowdell then noted the RF team's contributions across the ERO. She highlighted specific initiatives in furtherance of the corporate goals, including the completion of the new website, physical security system updates, and an enhanced security metrics dashboard. She also discussed improvements to the auditing processes and training activities, including a mock hearing for the compliance monitoring and enforcement teams and a CIP 101 training that was performed internally and externally for some smaller entities. Ms. Dowdell also highlighted training geared towards the RF management team, such as AI and interview training.

Ms. Dowdell concluded by discussing the many activities happening on the state outreach front, and Mr. Smyth shared the positive feedback he's received about this work. Mr. Gallagher noted that states are now reaching out to RF, which is a great sign of progress. Ms. Sterling noted that she appreciates the heads up from the state outreach team regarding meetings with states, and the details on what is discussed. There was discussion surrounding Maryland and the retirement of the Brandon Shores plant, and the discussions surrounding that being emblematic of the reliability issues RF has been trying to warn states about with its state outreach program. Mr. Seiler noted that there was a nice balance to the state outreach activities spreading across the various departments of RF. Ms. Burkey noted that she would be interested to see how RF continues to develop its engagement strategy when it comes to states, and if that department needs to change or grow going forward. Ms. Dowdell made a recommendation to pay staff 100% of the incentive bonus based on company performance. Ms. Evancho asked if there has been a time where RF was under or over 100% and Mr. Gallagher noted an instance of both and explained the reasoning behind it.

Overview of Merit Increases for 2023 – Ms. Dowdell then went through the process to determine merit increases. She noted that each person has individual goals they are rated on using a range from "unacceptable" to "distinguished." RF has a 4% raise budgeted for 2024. The amounts are then calculated based on that budget and the individual's performance. Ms. Evancho asked about the distribution curve for ratings, and Ms. Dowdell explained that the competencies changed this year, resulting in a different weighting between goals and competencies. This change helped level-set the distribution curve, which had been off in the past due to the number of competencies and the weight of competencies opposed to goals. Ms. Dowdell explained the RF pay philosophy employed

to create equity between new hires and existing employees. Mr. Smyth asked if RF is convinced that its pay bands are right. Ms. Dowdell noted she does want to look at engineering roles as there might be discrepancies attributable to outdated job descriptions, but that all other roles after last year's adjustments seem appropriate. Ms. Dowdell then discussed individual outliers in terms of RF's pay philosophy and how RF is handling them. Mr. Gallagher noted that the company does not have a pension. Ms. Evancho asked if RF's tendency is to try and keep people at or below the midpoint and Ms. Dowdell said for new hires the answer is yes, but not for existing employees. She then showed a graph of where individuals fall relative to their pay band. Ms. Dowdell requested the Committee consider approving the overall 4% merit increase for staff. She noted the pay bands have increased 3% across the board for 2024, which was suggested by Pay Governance. Ms. Sterling asked why pay bands have increased by 3% and merit increases are 4%. Ms. Evancho explained that they are two different data points and are often different from one another.

Review and Approve 2024 Retirement, Miscellaneous and Medical Benefits as part of Total Compensation Benefits Discussion –

Ms. Dowdell provided a review of RF's benefits. She began by noting RF chose a new broker, Taylor Oswald, and described the success RF has had because of selecting them through its RFP process. She discussed retirement benefits, which RF recommended to stay the same, including the 401(k) program. She then discussed miscellaneous benefits, including incentive compensation levels, executive benefits (i.e., life insurance), the 457(b) plan, the education reimbursement program, and the flexible spending account program, vacation and sick time and paid holidays. She recommended to continue these programs at the same levels. Mr. Smyth asked if RF has thought about combining sick time and vacation time, and Ms. Dowdell explained that sick time is used for maternity leave and short-term disability. She also noted that vacation and sick days are capped and there is a rollover limit. There was discussion around the lack of interest in unlimited vacation as a policy. Ms. Dowdell then discussed life insurance, accidental death and long-term disability insurance, the employee assistance program, travel assistance, and moving to a new insurance provider, Guardian, noting the savings in cost based on the new rates. The recommendation is to switch to Guardian while keeping the benefits themselves the same.

Ms. Dowdell then went into medical benefits and discussed how Taylor Oswald has built a network that allows RF to take advantage of preferred pricing. If RF moves to Anthem, it would be an 18-month commitment, which is not without risk, but the incentives to stay in the program (discounts for under 20% usage, preventative healthcare incentives) outweigh the risks. She noted that the plans themselves are similar, and that the IRS raised the HSA deductibles for 2024 to over \$4,000 for individual and \$8,000 for family. Ms. Dowdell then presented one change for the Committee to consider. In light of the large savings for switching plans and rising deductible costs, RF could contribute more to HSA accounts, \$2,275 for individuals and \$4,550 for families, which may incent more people to join the HSA plan (a much cheaper option for RF). The RF recommendation is to keep the 90/10 RF/employee cost burden.

Ms. Evancho commended the team for the work it took to switch brokers and the attractiveness of the concept that RF is reducing medical costs in this market. She also recommended that the messaging around the roll out should be for this year only. Mr. Cass

asked to see the medical costs compared in a chart year over year going forward for ease of viewing. Ms. Dowdell noted that vision and dental benefits would remain the same, with cost savings associated with switching providers to Guardian. Anthem rates would be locked in from 2024 through mid-year 2025, which would require an off-cycle Committee call. There was a question associated with what happens with deductibles and a caution regarding the prospect of go forward rates. Ms. Evancho requested a follow up discussion on the deductible piece, which could get complicated during a mid-year cycle. A motion was made, seconded, and unanimously approved to accept the recommendations for all employee benefits.

Independent Director Compensation – Ms. Dowdell presented the philosophy used in determining independent director compensation since 2021, along with the proposed director compensation increases for 2025 and 2026. She first discussed the history of independent director compensation (no increase in 2022, 2.75% in 2023, and 3% in 2024). She noted that NERC currently has budgeted two flat increases for its independent directors in 2025 and 2026, which equates to 3.7% in 2025, and 3.6% in 2026. After Committee discussion, it was determined that these numbers had not been finalized or approved by the NERC board. The Committee requested RF to wait for NERC’s final numbers, but gave permission to put the 2025 and 2026 percentage increases in the RF budget. The Committee decided to move the determination of the actual pay increases to a later date when RF has more information from NERC.

Compensation Committee Policy and Procedures and Performance of Specific Duties Review – Chair Evancho led a review of the Committee policies and procedures to determine if any changes should be made and ensure the Committee has completed all actions to follow these policies and procedures. She also presented a summary of the Committee’s specific duties under the Committee Charter (and the activities performed to meet those duties) for review and approval. Ms. Evancho shared that all required Committee Charter activities have been completed, and there were no questions from the Committee. A motion was made, seconded, and unanimously approved to accept the summary of the Committee’s duties and activities under the Committee Charter.

Next Meeting – Chair Evancho noted that the next Committee meeting will occur on May 2, 2023, in Cleveland, OH at the RF offices at 9:00 AM (ET), Chair Evancho moved the Committee into closed session.

Closed Executive Session – Committee Members Only and Mr. Gallagher

2024 Personal Goals for Tim Gallagher – Mr. Gallagher discussed with the Committee his personal goals for 2024.

President and CEO Employment Contract – Chair Evancho and Mr. Gallagher led a discussion on the renewal of the CEO employment contract and any terms that may have changed since the last contract.

Closed Executive Session – Committee Members Only

Review Executive Performance and Compensation – Chair Evancho led a discussion on the annual performance of Tim Gallagher and the Committee voted to endorse Mr. Gallagher’s 2024 compensation and employment contract for approval to the Board.

2023 Merit and Bonus Allocation – Chair Evancho led a discussion on the information presented earlier for the 2023 goals, proposed incentive award, and merit increases. The Committee voted and approved the recommendation for merit increases for staff. Chair Evancho then discussed the incentive payout percentage and the Committee voted and approved the incentive payout at 100%.

Adjourn – Upon a motion duly made and seconded, Chair Evancho adjourned the Committee meeting at 12:20pm (ET).

As approved on this 1st day of May, 2023, by the
Compensation Committee,



Niki Schaefer
*Vice President, General Counsel and Corporate
Secretary*

Attachment A

Others Present During the Compensation Committee Meeting

Jeff Craig
Hue DeLuca
Beth Dowdell
Tim Gallagher
Diane Holder
Niki Schaefer