1. **Call to Order and Roll Call**
   10:00 AM Meeting called to order on April 16, 2012 at PEC Headquarters Auditorium, 201 South Avenue F, Johnson City, TX.

2. **Employee/Director Recognitions for Approval**
   A. (Resolution (ID # 1976)) Retirement of Octaviano Molina, after 15 years of service.
   B. (Resolution (ID # 1956)) Retirement of Gilbert DeLaRosa, after 18 years of service.
   C. (Resolution (ID # 1949)) Retirement of George Bird, after 33 years of service.
   D. (Resolution (ID # 1957)) Retirement of Perry Wagner, after 38 years of service.

3. **Minutes Approval**
   A. *Friday, March 16, 2012*
   B. *Monday, March 19, 2012*
   C. *Monday, April 02, 2012*

4. **Items from Members**

5. **Chief Executive Officer**
   A. **CEO - Reports**
      1. Reports on February 2012 Monthly Financials
      2. March Safety Board Report
      4. Power Supply Report
      5. Member Services Report
6. Acknowledgement of Receipt of Conflict of Interest Certification and Disclosure Forms

B. **CEO - Action Items/Other Items**
   1. (Resolution (ID # 1965)) Submission of Director Candidates for Ballot and Authorization for Placement on Ballot
   
   2. (Resolution (ID # 1985)) Key Performance Indicators Amendments
   
   3. (Resolution (ID # 1971)) NRECA Membership Dues for 2012

C. **Announcements**

6. **Executive Session**

A. **Competitive Matters**
   1. Analysis of Ferguson Participation

B. **Legal Matters**
   1. Whistleblower Administrator Update
   
   2. Litigation Update, including Threatened Litigation and Administrative Claims

7. **1:00 PM - Reconvene to Regular Meeting**

8. **Items From Members**

9. **Items From Executive Session**

10. **Audit Committee**

A. **AC - Action Items/Other Items**
    1. (Resolution (ID # 1980)) 2011 Cooperative Financial Statements

11. **Compensation Committee**

A. **CC - Action Items/Other Items**
    1. (Resolution (ID # 1978)) Health and Dental Insurance Renewal

12. **Energy Committee**
A. EC - Action Items/Other Items
   1. (Resolution (ID # 1979)) Rates and Resources Council

13. Financial Strategies, Contracts, and Budget Committee.
   A. FSCB - Action Items/Other Items
      1. (Resolution (ID # 1986)) Authorization of Insurance Renewals
      2. (Resolution (ID # 1981)) Microsoft Server Support and Maintenance Agreement Renewal
      3. (Resolution (ID # 1982)) Amendment to the Delegation of Authority
      4. (Resolution (ID # 1983)) Member Assistance Program Policy Amendment

   A. GBL - Reports
      1. Update on Governance Assessment Proposals

15. Items From Directors - None

16. Future Items for Board Consideration

17. Future Meetings
   A. Announce May Special Meeting of the Committees scheduled for 9am on May 14, 2012 in the PEC Auditorium.
   B. Announce May Regular Board Meeting scheduled for 10 am on May 21, 2012 at the PEC Headquarters.
   C. Announce Annual Meeting scheduled for June 23, 2012 in the Hays CISD Performing Arts Center. Registration begins at 8:00am and the business meeting begins at 10:30am.
   D. Reschedule July Special Board Meeting of the Committees.

18. Adjourn
RESOLUTION (ID # 1976)

**Subject:** Octaviano Molina Retirement Resolution

**Submitted By:** JD Remling

**Department:** Human Resources

**Background:**

**Fiscal Impact:**

Expenditure of Cooperative funds estimated in the amount of $452 currently $150 is included in the Cooperative's 2012 operating budget; expenditures of staff time estimated in amount of 0 hours (other than ordinary processing requirements).
RESOLUTION (ID # 1976)

Retirement of Octaviano Molina, after 15 years of service.

The State of Texas
County of Blanco

Whereas, Octaviano Molina will retire from his employment with Pedernales Electric Cooperative, Inc. after faithfully and competently serving the members of PEC in various capacities for 15 years; and,

Whereas, Octaviano Molina has successfully applied his considerable energy, experience, and knowledge to providing the Members of Pedernales Electric Cooperative, Inc. with reliable electric service; and,

Whereas, in the course of his employment, Octaviano Molina has earned the friendship and respect of the Directors, Employees, and Members of Pedernales Electric Cooperative, Inc. for whom and with whom he has worked; and,

Whereas, Octaviano Molina's experience and willingness to serve will be sorely missed by the Members, Employees, and Board of Directors of Pedernales Electric Cooperative, Inc.; and,

Whereas, the Board of Directors of Pedernales Electric Cooperative, Inc. of Johnson City, Texas, thinks it fit and proper that a Resolution be passed and spread upon the minutes recognizing the contributions made by Octaviano Molina;

Now, Therefore, be it resolved by the Board of Directors of Pedernales Electric Cooperative, Inc. of Johnson City, Texas, that all Members, Employees, Officers, and Directors of Pedernales Electric Cooperative, Inc. hereby express their great appreciation to Octaviano Molina and their gratitude for the incalculable service rendered by Octaviano Molina to his fellow employees and friends of Pedernales Electric Cooperative, Inc., and,

Be It Further Resolved that this resolution be delivered to Octaviano Molina.
RESOLUTION (ID # 1956)

Subject: Gilbert DeLaRosa Retirement Resolution

Submitted By: JD Remling

Department: Human Resources

Background:

Fiscal Impact:

Expenditure of Cooperative funds estimated in the amount of $452 currently $150 is included in the Cooperative's 2012 operating budget; expenditures of staff time estimated in amount of 0 hours (other than ordinary processing requirements).
RESOLUTION (ID # 1956)

Retirement of Gilbert DeLaRosa, after 18 years of service.

The State of Texas
County of Blanco

Whereas, Gilbert DeLaRosa will retire from his employment with Pedernales Electric Cooperative, Inc. after faithfully and competently serving the members of PEC in various capacities for 18 years; and,

Whereas, Gilbert DeLaRosa has successfully applied his considerable energy, experience, and knowledge to providing the Members of Pedernales Electric Cooperative, Inc. with reliable electric service; and,

Whereas, in the course of his employment Gilbert DeLaRosa has earned the friendship and respect of the Directors, Employees, and Members of Pedernales Electric Cooperative, Inc. for whom and with whom he has worked; and,

Whereas, Gilbert DeLaRosa’s experience and willingness to serve will be sorely missed by the Members, Employees, and Board of Directors of Pedernales Electric Cooperative, Inc.; and,

Whereas, the Board of Directors of Pedernales Electric Cooperative, Inc. of Johnson City, Texas, thinks it fit and proper that a Resolution be passed and spread upon the minutes recognizing the contributions made by Gilbert DeLaRosa;

Now, Therefore, be it resolved by the Board of Directors of Pedernales Electric Cooperative, Inc. of Johnson City, Texas, that all Members, Employees, Officers, and Directors of Pedernales Electric Cooperative, Inc. hereby express their great appreciation to Gilbert DeLaRosa and their gratitude for the incalculable service rendered by Gilbert DeLaRosa to his fellow employees and friends of Pedernales Electric Cooperative, Inc., and,

Be It Further Resolved that this resolution be delivered to Gilbert DeLaRosa.
Subject: George Bird Retirement Resolution

Submitted By: JD Remling

Department: Human Resources

Background:

Fiscal Impact:

Expenditure of Cooperative funds estimated in the amount of $452 currently $150 is included in the Cooperative's 2012 operating budget; expenditures of staff time estimated in amount of 0 hours (other than ordinary processing requirements).
RESOLUTION (ID # 1949)

Retirement of George Bird, after 33 years of service.

The State of Texas
County of Blanco

Whereas, George Bird will retire from his employment with Pedernales Electric Cooperative, Inc. after faithfully and competently serving the members of PEC in various capacities for 33 years; and,

Whereas, George Bird has successfully applied his considerable energy, experience, and knowledge to providing the Members of Pedernales Electric Cooperative, Inc. with reliable electric service; and,

Whereas, in the course of his employment, George Bird has earned the friendship and respect of the Directors, Employees, and Members of Pedernales Electric Cooperative, Inc. for whom and with whom he has worked; and,

Whereas, George Bird’s experience and willingness to serve will be sorely missed by the Members, Employees, and Board of Directors of Pedernales Electric Cooperative, Inc.; and,

Whereas, the Board of Directors of Pedernales Electric Cooperative, Inc. of Johnson City, Texas, thinks it fit and proper that a Resolution be passed and spread upon the minutes recognizing the contributions made by George Bird;

Now, Therefore, be it resolved by the Board of Directors of Pedernales Electric Cooperative, Inc. of Johnson City, Texas, that all Members, Employees, Officers, and Directors of Pedernales Electric Cooperative, Inc. hereby express their great appreciation to George Bird and their gratitude for the incalculable service rendered by George Bird to his fellow employees and friends of Pedernales Electric Cooperative, Inc., and,

Be It Further Resolved that this resolution be delivered to George Bird.
Subject: Perry Wagner Retirement Resolution

Submitted By: JD Remling

Department: Human Resources

Background:

Fiscal Impact:

Expenditure of Cooperative funds estimated in the amount of $452 currently $150 is included in the Cooperative's 2012 operating budget; expenditures of staff time estimated in amount of 0 hours (other than ordinary processing requirements).
RESOLUTION (ID # 1957)

Retirement of Perry Wagner, after 38 years of service.

The State of Texas
County of Blanco

Whereas, Perry Wagner will retire from his employment with Pedernales Electric Cooperative, Inc. after faithfully and competently serving the members of PEC in various capacities for 38 years; and,

Whereas, Perry Wagner has successfully applied his considerable energy, experience, and knowledge to providing the Members of Pedernales Electric Cooperative, Inc. with reliable electric service; and,

Whereas, in the course of his employment, Perry Wagner has earned the friendship and respect of the Directors, Employees, and Members of Pedernales Electric Cooperative, Inc. for whom and with whom he has worked; and,

Whereas, Perry Wagner's experience and willingness to serve will be sorely missed by the Members, Employees, and Board of Directors of Pedernales Electric Cooperative, Inc.; and,

Whereas, the Board of Directors of Pedernales Electric Cooperative, Inc. of Johnson City, Texas, thinks it fit and proper that a Resolution be passed and spread upon the minutes recognizing the contributions made by Perry Wagner;

Now, Therefore, be it resolved by the Board of Directors of Pedernales Electric Cooperative, Inc. of Johnson City, Texas, that all Members, Employees, Officers, and Directors of Pedernales Electric Cooperative, Inc. hereby express their great appreciation to Perry Wagner and their gratitude for the incalculable service rendered by Perry Wagner to his fellow employees and friends of Pedernales Electric Cooperative, Inc., and,

Be It Further Resolved that this resolution be delivered to Perry Wagner.
1. **Call to Order**

9:00 AM Meeting called to order on March 16, 2012 at PEC Board Room, 201 South Avenue F, Johnson City, TX.

<table>
<thead>
<tr>
<th>Attendee Name</th>
<th>Title</th>
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</thead>
<tbody>
<tr>
<td>Dr. Patrick Cox</td>
<td>District 7 Director</td>
<td>Present</td>
<td>9:00 AM</td>
</tr>
<tr>
<td>Larry Landaker</td>
<td>District 6 Director</td>
<td>Remote</td>
<td>9:10 AM</td>
</tr>
<tr>
<td>Ross Fischer</td>
<td>District 5 Director</td>
<td>Absent</td>
<td></td>
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<tr>
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<td>District 3 Director</td>
<td>Present</td>
<td>9:00 AM</td>
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<td>William Boggs</td>
<td>District 2 Director</td>
<td>Present</td>
<td>9:00 AM</td>
</tr>
<tr>
<td>Cristi Clement</td>
<td>District 1 Director</td>
<td>Present</td>
<td>9:00 AM</td>
</tr>
</tbody>
</table>

Members wishing to monitor the Open Session of this Special Board Meeting were able to do so in the PEC Board Room. Open Session was audio recorded in accordance with Open Meetings Policy.

2. **Items from Members**

There were no items from members.

3. **Review of Purpose of the Meeting**

President Cristi Clement shared a brief introductory statement regarding the purpose of the meeting and introduced the meeting facilitator Greg Boudreaux. Mr. Boudreaux reviewed his background including 21 years as Executive Director of Educational Programs with NRECA, an Assistant Dean at University of Maryland, and a PhD in Philosophy of Social Science and Psychology. He retired from NRECA in 2005, but still maintains a relationship and does work in Board Governance. He reviewed his role to facilitate discussion on the key issues to be considered during development of the Code of Ethics and Directors' Code of Conduct. Mr. Boudreaux reviewed some of the terminologies he would be using during the meeting.

4. **Review of Director Comments Regarding the Meeting Agenda**

Mr. Boudreaux provided the following observations on the five out of seven director comments he received.

1. Concerns by some that the board has become involved in micro management that is keeping it from accomplishing its own priorities such as finishing the policies on Director Duties and the Code of Conduct, and finishing the strategic goals to be delegated to CEO along with how to hold him accountable.

2. Concerns that to not be like the old rubber stamp board, directors are becoming personally involved in issues as reviewing contracts in detail, getting involved in consumer questions. Risks - this can lead members to assume they must go to Board rather than going to management which was hired to do these things; it delegitimizes staff, which sees itself as being disregarded; by directors assuming individual responsibilities you may not be protected by Directors &
Officers insurance.

3. Some employees perceive an unhealthy level of bickering on the Board.

Mr. Boudreaux recommended addressing these issues in terms of Board best practices and policies to be able to focus on its level to approve strategic direction of the organization, delegate individual responsibilities to management and hold management responsible.

Director Larry Landaker joined the meeting by teleconference at 9:10am and PEC member Linda Kay Rogers joined the meeting in the Board room at 9:16am.

Mr. Boudreaux reviewed responses from each of the five directors as shown on the attached power point presentation. Mr. Boudreaux reviewed the role of the Board, including that a director may ask a simple factual question of management, but only the entire Board may authorize extensive research as the Board's duty of care.

5. Consultant's Observations about Director's Duties and Standards of Conduct
Mr. Boudreaux shared his observations about the Director Duties and Standards of Conduct during the review and discussion portion of the agenda, which help to facilitate the analysis of necessary edits.

6. Review and Discussion of Proposed Policies Regarding Director's Duties and Standards of Conduct
Mr. Boudreaux reviewed the sample of the Code of Ethics he submitted along with the additional samples provided by General Counsel Brent Bailey. CEO RB Sloan shared staff's recent work on values that spelled the acronym STARR. After some discussion, the Board agreed that General Counsel Brent Bailey would create the Cooperative's Code of Ethics as instructed during the meeting and outlined below:

   Introduction

   Our Values
   S- Safety (employees are expected to create a safe working environment)
   T- Trust (membership and employee/Board/management, openness and transparency, confidentiality, member communications)
   A - Accountability and Integrity (honesty, ethics, conflict of interest, codes of conduct, deliver on our promises, financial accountability)
   R - Responsibility (each other, members, public, community, laws/bylaws)
   R - Respect (people, environment, law)

   Administration/Conclusion

   This draft would be submitted for review at the next Special Board Meeting of the Committees.

   The Board took a break at 10:02am and reconvened at 10:10am.

Next Mr. Boudreaux reviewed the sample of Director Duties and Standards of Code of Conduct with the Board. The Board recommended the following changes:
1. Use cooperative consistently while maintaining Texas corporate law requirements.
2. Item III.A.3 in last line change he to he/she.
3. Item III.A.4 remove "disclosure of campaign assistance from nonmembers of the Cooperative."
5. Item III.A. 6 Brent to define extraordinary circumstances.
6. Item III.B. 3 add matters considered "in Executive Session" and strike "and acted upon by the Board."
7. Item III.B.3 insert language.. all directors are responsible to follow this policy.
8. Item III.C.1 quantify "significant" relevant to Board's current agenda with clear purpose.
9. Item III.C.2 delete "at the next meeting of" insert "to."
10. Item III.C.3 add "Confidential" before information.
11. Item III.C.4 add "confidential" before information.
12. Item III.D.1 look at conflicts of interest policy and build in language on self dealing, directors representing themselves, and contacting third party vendors.
13. Item III. E. add to end of sentence "bylaws and policies."

The Board took a break for lunch at 12:11pm and reconvened at 12:30pm. The Director Duties and Standards of Code of Conduct will be updated and presented at the April 9 Special Board Meeting of the Committees.

7. **Other Issues**

There was some discussion on the board assessment process, director attendance at meetings, and the enforcement of the policy. General Counsel Brent Bailey stated that a director must attend a majority of the meetings and can build in language into the code of conduct to address some of these issues.

8. **Action Plans and Next Steps**

General Counsel Brent Bailey will create the documents for review at the Special Board Meeting of the Committees on April 9.

9. **Adjourn**

There being no further business to come before the Board of Directors, the meeting was adjourned at 1:19pm.

____________________________________
Larry Landaker, Secretary
APPROVED:

____________________________________
Cristi Clement, President
RESOLUTION 2011-105: “Be it resolved...that a Special Board Meeting be called for the purpose of assessing key issues to be considered during development of a director’s code of ethics and code of conduct...”
1. Develop a code of ethics for the board of directors that includes:

• Accountability and respect for bylaws, policies and all state and federal law
• Professional Excellence and conduct for board members
• Conform to the conflict of interest policy
• Respect and equal opportunity
• Need to protect confidential information.
• Collaboration and cooperation
2. Develop a code of ethics; discuss board assessments

3. Disclosure of relevant financial information that may impact a director's decision-making or fiduciary capabilities. (Examples: is the director subject to any local, state or federal tax liens? Has the director filed for personal bankruptcy in the past ten years?)

Disclosure of business interests. Should directors be required to list all business entities in which the director or their immediate family has an interest?

Requiring disclosure of campaign assistance from nonmembers of the Cooperative.
4. Role of committees—goes straight from committee to floor

Spending wisely, “SAP” system. New computer systems always take longer than expected.

5. We have much unfinished that much be addressed, including the policy on director duties & standards of conduct, a strategic plan, and an ethics policy.

We need to develop customized goals for the CEO appraisal.

We need to get agreement on our core values so that the board can achieve some degree of stability
...adopt basic values that we believe to be important for the good of PEC and that set the proper tone at the top for expected behavior, that we agree to be specific enough to be meaningful, and that we have a process to deal with and mitigate errant directors and their damage to the coop.

That code should /bring/ assurance to members that no decisions will benefit one member sector to the detriment of other members, that self dealing by directors will be defined and considered unacceptable, that conflicts of interest will be mitigated by self disclosure and recusal on pending transactions, that disclosure will also include fees, honoraria, expenses, reimbursements or salaries received by a director from other organizations.

That we can agree to avoid the appearance of conflict of interest in our dealings with outside organizations.
...agree to establish limitations to acceptance of gifts or goods for personal use. Directors owe loyalty to the PEC and will not take actions as individuals that seeks or gains personal recognition or benefit for actions accomplished as an organization. Directors should not accept gifts or anything of value that gives the appearance of being associated with doing business with PEC, items included are tickets to fundraisers, payments for speaking, travel etc associated with other organizations.

...establish some code of conduct to set agreed to boundaries and have procedures to follow if a director abuses our established limitations.
I OBJECTIVE

To explain the fiduciary duties of directors and to clarify the standards of conduct for which they will be held accountable when serving on the board.

II PREAMBLE

All of the powers of the corporation are conferred upon and may be exercised by the Board of Directors when acting in a duly convened meeting, except as reserved to or conferred upon the members by law, the articles of incorporation, or the bylaws. It is the purpose of this policy to identify standards whereby such power may be exercised in the best interests of the corporation.

III POLICY

A. Legal Duties

Directors are subject to legal duties, including care, obedience and loyalty. Under the duty of care, directors are required to:

1. Exercise that degree of care that an ordinarily prudent person would exercise under similar circumstances.
2. Have or acquire minimum knowledge and skills necessary to direct the affairs of the corporation.
3. Make every effort to attend all meetings of the board and to study materials sent prior to each board meeting. The director has a duty to be informed, and can and should request more information if he feels it necessary.

Under the duty of obedience, directors are required to

1. Study and adhere to all obligations imposed by federal and state law and regulation, the Articles of Incorporation, the bylaws, contractual agreements and board policies.

Under the duty of loyalty, directors are required to:

1. Act only in the best long-term interest of the cooperative and its members.
2. Place the interests of the cooperative over any personal interests.
3. Not have any financial interest in a directly competing business.
4. Avoid the appearance of conflict of interest by disclosure of financial information that may impact a director's decision-making or fiduciary capabilities, annual disclosure of business interests, disclosure of campaign assistance from nonmembers of the Cooperative, and by refusing to receive any remuneration from any entity proposing to purchase all or substantially all of the assets of the cooperative.
5. Support the interests of the cooperative to the public and to elected officials.
7. Publicly support decisions of the board except in extraordinary circumstances where the director believes that there is a clear overriding duty.

B. Conduct with Respect to Fellow Directors

Regardless of any personal differences directors should:

1. Demonstrate mutual respect.
2. Allow opportunity for every other director to be heard on any matter being considered by the board.
3. Abstain from revealing to persons other than directors, the Chief Executive or the attorney any differences of positions among directors on matters considered and acted upon by the board. (This standard does not preclude fair and accurate publication of such differences to the system’s members in relation to contests for director elections or other matters to be voted upon by the members.)
4. Recognize that the Board Chairman has the responsibility and authority to enforce these standards of behavior, through reminders of the standard and expectations and the issuance of a reprimand approved by the board to the director who has breached these standards.

C. Director Access to Cooperative Information

Any director is entitled to have access to cooperative data or information, at reasonable times during the business hours for a proper purpose that is germane to his or her standing as a director. A director should keep confidential all matters involving the cooperative that have not been disclosed to the general public. This principle is subject to the following:

1. All requests for information that involve a significant commitment of time or resources by the Chief Executive shall be made at board meetings to the Chief Executive.
2. In any instance in which a director has sought access to information not generally made available or reported to the board, the Chief Executive shall report on this at the next meeting of the board.
3. Information received by a director pursuant to this policy shall not be revealed by him or her to any other persons (the remaining directors, Chief Executive and system attorney excepted) unless he or she is sincerely convinced that he or she is compelled to do so by legal considerations.
4. In no case should a director reveal to others information he or she receives if the actual or potential effect of such revelation is to damage the system, including its image, or to enable himself or herself and/or others to personally profit there from.

D. Good Faith and Fair Play

Every director shall deal in good faith and fair play with every other director and the Chief Executive in expressing his views, questions and concerns relating to cooperative policies, rates and programs. Good faith and fair play require:

1. All directors should reveal all information or interests that they may have and that may bear upon action being considered by the cooperative.
2. Those directors will not so pursue a position, inquiry or motion as to unduly harass or annoy other directors, the Chief Executive, employees or independent contractors.
3. That director communications with employees other than the Chief Executive shall be casual and conducted on a courteous basis, but not for the purpose of influencing an employee’s position or attitude concerning his cooperative-related activities.

E. The board of directors should regularly evaluate its own performance and accomplishments in relation to the goals and mission of the corporation.

IV POLICY IMPLEMENTATION AND RESPONSIBILITY

1. All candidates, nominees or appointees to the board shall receive a copy of this policy and attest by their signatures to having received the policy.
2. Legal counsel shall inform all candidates, nominees or appointees to the board regarding the terms and conditions of this policy and the personal liability implications resulting from policy violations.
3. Legal counsel shall review this policy with the board on an annual basis and discuss any personal liability implications resulting from violations.
4. The Chairman of the Board shall ensure that this policy is followed.
Addendum
DIRECTOR DUTIES AND STANDARDS OF CONDUCT

Affirmation of Reception, Understanding of and Support for Board Policy Director Duties and Standards of Conduct and Performance

I, the undersigned, have received, read, understand and support the Board Policy on Standards of Conduct and Performance for Directors

Signed: _____________________________
Date: ______________________________
1. Call to Order and Roll Call

10:00 AM Meeting called to order on March 19, 2012 at PEC Headquarters Auditorium, 201 South Avenue F, Johnson City, TX.

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</table>

2. Employee/Director Recognitions for Approval

CEO RB Sloan announced that three employees were retiring, who represented 83 years of service to the membership of PEC. CEO RB Sloan recognized each of the employees by sharing his or her employment history with the Cooperative. Joey Thompson was present to receive his framed resolution and clock. Photos were displayed of James Streater and Ginny Bain who were unable to attend. Their framed resolutions and clocks would be delivered to them at a later date. CEO RB Sloan thanked the group for their service and gave his congratulations on their retirement.

A. (Resolution (ID # 1923)) Retirement of Virginia Bain, after 13 years of service.

B. (Resolution (ID # 1924)) Retirement of James Streater, after 33 years of service.

C. (Resolution (ID # 1925)) Retirement of Joseph Thompson, after 37 years of service.

3. Minutes Approval

President Cristi Clement asked for any comments or edits to the minutes, then announced that without objection the minutes were approved as presented.

A. Monday, February 20, 2012 Regular Meeting

4. Items from Members

There were no members present wishing to address the Board during the morning session.

5. Chief Executive Officer

A. CEO - Reports
1. Reports on January 2012 Monthly Financials
Chief Financial Officer Frank A. Skube reported on the financials as included in the Board Package and in the attached power point presentation. CFO Skube introduced a new graph presentation comparing actuals to budget which would continue to develop through the year.

2. March 2012 Safety Board Report
CEO RB Sloan reviewed the February 2012 Safety Statistics as shown in the attached power point presentation.

CEO RB Sloan reported on the Monthly Operations Report as shown in the attached power point presentation. He also reported that earlier in the day a large outage affecting approximately 4,300 members had occurred in the Blanco area with a substation down for approximately 7 hours due to winds.

4. Power Supply Report
CEO RB Sloan presented the Power Supply Report as shown in the attached power point presentation. He also reported on the Energy Forum scheduled for 5pm on April 2 where industry experts would speak on the role of Energy Efficiency and Renewable Energy programs at PEC and in Texas. Members were encouraged to attend the forum and submit comments. CEO RB Sloan reported that PEC had a $2 million budget on energy efficiency and demand management programs including, energy efficiency school workshops, conservation blog, Do It Yourself videos on our website, Beat the Peak, HVAC and commercial lighting rebates, My Use Energy Analyzer, energy audits, Consort program, and emergency interruptive load service. He announced that in 2011, the Cooperative had 21% of its capacity requirement met by renewables and was projected to reach the goal of 30% in 2020. CEO RB Sloan reported on the Cooperative's Interconnection Policy, the recent Solar Tour, and the current renewables RFP as examples of the Cooperative's efforts.

5. Member Services Report
CEO RB Sloan reported on the Member Services Report as shown in the power point presentation.

6. Annual Meeting Update
CEO RB Sloan reminded members that this year's Annual Meeting would be held on June 23 in Kyle and encourage members to attend.

7. Director Election Update
General Counsel Brent Bailey reported that staff is preparing for the 2012 elections. A third party vendor, Survey Ballot Systems, would be handling the 2012 election, which includes three director positions and a member resolution pertaining to a proposed amendment to the Articles of Incorporation. Members wishing to run for a position were encouraged to file a petition application as found on the website by the April 9th deadline. He also reported on the Candidate Orientation scheduled for April 12, the five Meet the Candidate events to be held in May and June at different PEC district office locations, and the April 16 Board Meeting when the candidates' names would be certified for placement on the ballot.

B. CEO - Action Items/Other Items
1. (Resolution 2012-11) Revised Committee Guidelines
President Cristi Clement asked for any comments, revisions, or additions to the resolution. Hearing none, Director Dr. Patrick Cox called the question.

RESULT: ADOPTED [5 TO 1]
MOVER: Dr. Patrick Cox, District 7 Director
SECONDER: William Boggs, District 2 Director
AYES: Cox, Landaker, Scanlon, Boggs, Clement
NAYS: Chris Perry
ABSENT: Ross Fischer

C. Announcements

6. Executive Session
President Cristi Clement announced that the Board would recess to Executive Session and estimated reconvening at 1:00pm.

A. Competitive Matters

1. Meter Data Management System RFP

B. Contracts

1. Internal Audit Services

C. Legal Matters

1. Whistleblower Administrator Update

2. Litigation Update, including Threatened Litigation and Administrative Claims

D. Personnel Matters

E. Real Estate Matters

7. 1:00 PM - Reconvene to Regular Meeting

8. Items From Members
There were no members present wishing to address the Board during the afternoon session.

9. Items From Executive Session

A. (Resolution 2012-14) Meter Data Management System RFP
10. Audit Committee
There was no report from the Audit Committee.

A. AC - Action Items/Other Items - None

11. Communications Committee
Director Larry Landaker reported that the Communications Committee met and received a report from Communication Manager Michael Racis regarding our communication strategy on items such as Annual Meeting, the Cooperative principles, social media, and relaying our successes. He also reported that Mr. Racis would be making a report to the full Board in the near future.

A. CMC - Action Items/Other Items - None

12. Compensation Committee
President Cristi Clement reported that the Compensation Committee had not met.

A. CC - Action Items/Other Items - None

13. Energy Committee

A. EC - Action Items/Other Items - None
Director Chris Perry reminded everyone about the Energy Forum conducted to receive comments on Energy Efficiency and Renewable Energy Programs. The Board clarified that this would be a Special Board Meeting with reports from invited guests and comments from members, but no action would be taken.

14. Financial Strategies, Contracts, and Budget Committee

A. FSCB - Action Items/Other Items

1. (Resolution 2012-12) Extension of Temporary Waiver of Certain Requirements of Tariff and Business Rules
Manager Eddie Dauterive reviewed the proposed resolution for an extension of the disaster relief program.
15. Governance, Bylaws and Legal Committee

A. **GBL - Action Items/Other Items**

   1. (Resolution 2012-13) NRECA Grass Roots Summit Legislative Conference 2012

Following some discussion on the meeting purpose and those directors who would be available to attend, Director Chris Perry moved to amend by adding Dr. Patrick Cox and CEO RB Sloan as the attendees. Following the Board’s vote, President Clement asked General Counsel Brent Bailey to read the resolution with the names inserted and announced the item was approved.

RESULT: **ADOPTED AS AMENDED [4 TO 2]**

MOVER: Chris Perry, District 4 Director
SECONDER: Kathryn Scanlon, District 3 Director
AYES: Dr. Patrick Cox, Larry Landaker, Chris Perry, Kathryn Scanlon
NAYS: William Boggs, Cristi Clement
ABSENT: Ross Fischer

16. Items From Directors

There were no items from directors.

17. Future Items for Board Consideration

18. Future Meetings

   A. Announce April Special Board Meeting scheduled for 5:00 pm on April 2, 2012 at the PEC Headquarters.

   B. Announce April Special Board Meeting of the Committees scheduled for 9:00 am on April 9, 2012 at the PEC Headquarters.

   C. Announce April Regular Board Meeting scheduled for 10:00 am on April 16, 2012 at the PEC Headquarters.

CEO RB Sloan announced that on Wednesday, March 21 a Do It Yourself workshop on conservation would be held at the Bertram District Office and more workshops would be held throughout the system, once a month through October, with the exception of the month of June.
19. **Adjourn**

There being no further business to come before the Board of Directors, the meeting was adjourned at 1:25pm.

Larry Landaker, Secretary
APPROVED:

Cristi Clement, President
Subject: Virginia Bain Retirement Resolution

Submitted By: JD Remling

Department: Human Resources

Background:

Fiscal Impact:

Expenditure of Cooperative funds estimated in the amount of $452 currently $150 is included in the Cooperative's 2012 operating budget; expenditures of staff time estimated in amount of 0 hours (other than ordinary processing requirements).
RESOLUTION (ID # 1923)

Retirement of Virginia Bain, after 13 years of service.

The State of Texas
County of Blanco

Whereas, Virginia Bain will retire from her employment with Pedernales Electric Cooperative, Inc. after faithfully and competently serving the members of PEC in various capacities for 13 years; and,

Whereas, Virginia Bain has successfully applied her considerable energy, experience, and knowledge to providing the Members of Pedernales Electric Cooperative, Inc. with reliable electric service; and,

Whereas, in the course of her employment, Virginia Bain has earned the friendship and respect of the Directors, Employees, and Members of Pedernales Electric Cooperative, Inc. for whom and with whom she has worked; and,

Whereas, Virginia Bain's experience and willingness to serve will be sorely missed by the Members, Employees, and Board of Directors of Pedernales Electric Cooperative, Inc.; and,

Whereas, the Board of Directors of Pedernales Electric Cooperative, Inc. of Johnson City, Texas, thinks it fit and proper that a Resolution be passed and spread upon the minutes recognizing the contributions made by Virginia Bain;

Now, Therefore, be it resolved by the Board of Directors of Pedernales Electric Cooperative, Inc. of Johnson City, Texas, that all Members, Employees, Officers, and Directors of Pedernales Electric Cooperative, Inc. hereby express their great appreciation to Virginia Bain and their gratitude for the incalculable service rendered by Virginia Bain to her fellow employees and friends of Pedernales Electric Cooperative, Inc., and,

Be It Further Resolved that this resolution be delivered to Virginia Bain.
RESOLUTION (ID # 1924)

Subject: James Streater Retirement Resolution

Submitted By: JD Remling

Department: Human Resources

Background:

Fiscal Impact:

Expenditure of Cooperative funds estimated in the amount of $452 currently $150 is included in the Cooperative's 2012 operating budget; expenditures of staff time estimated in amount of 0 hours (other than ordinary processing requirements).
RESOLUTION (ID # 1924)

Retirement of James Streater, after 33 years of service.

The State of Texas
County of Blanco

Whereas, James Streater will retire from his employment with Pedernales Electric Cooperative, Inc. after faithfully and competently serving the members of PEC in various capacities for 33 years; and,

Whereas, James Streater has successfully applied his considerable energy, experience, and knowledge to providing the Members of Pedernales Electric Cooperative, Inc. with reliable electric service; and,

Whereas, in the course of his employment, James Streater has earned the friendship and respect of the Directors, Employees, and Members of Pedernales Electric Cooperative, Inc. for whom and with whom he has worked; and,

Whereas, James Streater's experience and willingness to serve will be sorely missed by the Members, Employees, and Board of Directors of Pedernales Electric Cooperative, Inc.; and,

Whereas, the Board of Directors of Pedernales Electric Cooperative, Inc. of Johnson City, Texas, thinks it fit and proper that a Resolution be passed and spread upon the minutes recognizing the contributions made by James Streater;

Now, Therefore, be it resolved by the Board of Directors of Pedernales Electric Cooperative, Inc. of Johnson City, Texas, that all Members, Employees, Officers, and Directors of Pedernales Electric Cooperative, Inc. hereby express their great appreciation to James Streater and their gratitude for the incalculable service rendered by James Streater to his fellow employees and friends of Pedernales Electric Cooperative, Inc., and,

Be It Further Resolved that this resolution be delivered to James Streater.
RESOLUTION (ID # 1925)

Subject: Joseph Thompson Retirement Resolution

Submitted By: JD Remling

Department: Human Resources

Background:

Fiscal Impact:

Expenditure of Cooperative funds estimated in the amount of $452 currently $150 is included in the Cooperative's 2012 operating budget; expenditures of staff time estimated in amount of 0 hours (other than ordinary processing requirements).

ATTACHMENTS:

- 2012-03-19 PEC March Retirees 2pg (PDF)
RESOLUTION (ID # 1925)

Retirement of Joseph Thompson, after 37 years of service.

The State of Texas
County of Blanco

Whereas, Joseph Thompson will retire from his employment with Pedernales Electric Cooperative, Inc. after faithfully and competently serving the members of PEC in various capacities for 37 years; and,

Whereas, Joseph Thompson has successfully applied his considerable energy, experience, and knowledge to providing the Members of Pedernales Electric Cooperative, Inc. with reliable electric service; and,

Whereas, in the course of his employment, Joseph Thompson has earned the friendship and respect of the Directors, Employees, and Members of Pedernales Electric Cooperative, Inc. for whom and with whom he has worked; and,

Whereas, Joseph Thompson’s experience and willingness to serve will be sorely missed by the Members, Employees, and Board of Directors of Pedernales Electric Cooperative, Inc.; and,

Whereas, the Board of Directors of Pedernales Electric Cooperative, Inc. of Johnson City, Texas, thinks it fit and proper that a Resolution be passed and spread upon the minutes recognizing the contributions made by Joseph Thompson;

Now, Therefore, be it resolved by the Board of Directors of Pedernales Electric Cooperative, Inc. of Johnson City, Texas, that all Members, Employees, Officers, and Directors of Pedernales Electric Cooperative, Inc. hereby express their great appreciation to Joseph Thompson and their gratitude for the incalculable service rendered by Joseph Thompson to his fellow employees and friends of Pedernales Electric Cooperative, Inc., and,

Be It Further Resolved that this resolution be delivered to Joseph Thompson.
Joey Thompson
Construction/Service Supervisor
37 years
James Streater
Equipment Operator II
33 years

Virginia Bain
Administrative Assistant
Financial Services
Thank you all for your years of service, dedication, and commitment to the PEC membership. We wish you all the very best.

CONGRATULATIONS!
Report on Monthly Financials

March 2012 Board Meeting

Informational Items - February

<table>
<thead>
<tr>
<th></th>
<th>1/31/2012</th>
<th>2/29/2012</th>
<th>Net Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Active Accounts (meters and lights)</td>
<td>242,625</td>
<td>242,970</td>
<td>345</td>
</tr>
<tr>
<td>Total Memberships</td>
<td>204,180</td>
<td>204,779</td>
<td>599</td>
</tr>
<tr>
<td>Write-Off of Uncollectible Accounts</td>
<td>$135,472</td>
<td>$298,856</td>
<td></td>
</tr>
<tr>
<td>Non-Electrical Bad Debt Write-Off</td>
<td>$0</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td><strong>Power Bill (Unaudited)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>389,680,298 kWh</td>
<td>Current month/yr</td>
<td>$24,386,512.59 (includes LCRA &amp; AEP)</td>
<td></td>
</tr>
<tr>
<td>483,659,980 kWh</td>
<td>Previous Year</td>
<td>$27,835,439.81 (includes LCRA &amp; AEP)</td>
<td></td>
</tr>
</tbody>
</table>
RB Sloan
CEO Report
March 2012 Board Meeting

PEC Safety Statistics

<table>
<thead>
<tr>
<th>February Safety Report</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Lost-time Injuries *All Lost Time Accidents are OSHA Recordable</td>
<td>This Month</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>Year to Date</td>
<td>0</td>
</tr>
<tr>
<td>Other OSHA Recordable Injuries</td>
<td>This Month</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Year to Date</td>
<td>4</td>
</tr>
<tr>
<td>Number of Non-Recordable First Aid Injuries</td>
<td>This Month</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>Year to Date</td>
<td>7</td>
</tr>
<tr>
<td>Number of Vehicle Accidents</td>
<td>This Month</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Year to Date</td>
<td>3</td>
</tr>
<tr>
<td>Number of Employees Trained</td>
<td>This Month</td>
<td>226</td>
</tr>
<tr>
<td></td>
<td>Year to Date</td>
<td>552</td>
</tr>
<tr>
<td>Class Attendance</td>
<td>This Month</td>
<td>229</td>
</tr>
<tr>
<td></td>
<td>Year to Date</td>
<td>546</td>
</tr>
</tbody>
</table>

*All Lost Time Accidents are OSHA Recordable
KPI Safety Statistics

<table>
<thead>
<tr>
<th>TCIR</th>
<th>TCIR for 2011 KPI Period Ending October 31</th>
<th>TCIR for 2012 KPI Period Thru January 31</th>
<th>TCIR for 2012 KPI Period Thru February 29</th>
<th>PEC’s TCIR Goal 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total OSHA-recordable injuries/illnesses</td>
<td>2.51</td>
<td>3.02</td>
<td>3.03</td>
<td>&lt;2.7</td>
</tr>
</tbody>
</table>

Calculated as: Total number of recordable injuries/illnesses x 200,000 / man-hours worked

<table>
<thead>
<tr>
<th>DART</th>
<th>DART for 2011 KPI Period Ending October 31</th>
<th>DART for 2012 KPI Period Thru January 31</th>
<th>DART for 2012 KPI Period Thru February 29</th>
<th>PEC’s DART Goal 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total lost time and restricted duty injuries/illnesses</td>
<td>2.01</td>
<td>2.4</td>
<td>2.6</td>
<td>&lt;1.0</td>
</tr>
</tbody>
</table>

Calculated as: Total number of injuries/illnesses that result in Lost Time or Restricted Duty x 200,000 / man-hours worked

Operations Report

- SAIDI for the rolling 12 months ending February 29 was 38 compared to 43.6 minutes in January
- For the month we had 253 forced outages affecting 4,036 members for a SAIDI of 2.0 minutes excluding planned, transmission and major events
Operations Report - Major Events

- The morning of February 15, New Braunfels Utilities had a bushing on a power transformer fail in their Henny Substation. They picked up all their load from adjacent NBU stations with the exception of Colorado Materials, a 4MW load.
- At 4:30 pm that day we temporarily energized the idle NBU feeder out of Hunter Substation and service to Colorado Materials was restored.
- NBU’s intent was to make repairs quickly and transfer back to their substation.
- Finding parts took longer than anticipated. Colorado Materials was finally transferred back to NBU’s Henny Substation on Friday, March 2 about 3:30 pm.
- NBU is grateful for the assistance.

Power Supply Report

Monthly Peak and Power Purchases

- **Peak Demand**
  - 973 MW on 2/12/12 @ 9:00 am
- **Power Purchased**
  - February Total: 360,339 MWh
  - South Trent Wind: 26,400 MWh
    - ST Wind represents 7.3% of energy purchases
- **Monthly Variance – Current Year vs. Prior Year**

<table>
<thead>
<tr>
<th></th>
<th>Feb-12</th>
<th>Feb-11</th>
<th>Delta</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>MW</td>
<td>973</td>
<td>1,407</td>
<td>(434)</td>
<td>-31%</td>
</tr>
<tr>
<td>MWh</td>
<td>360,339</td>
<td>432,843</td>
<td>(72,504)</td>
<td>-17%</td>
</tr>
<tr>
<td>Load Factor</td>
<td>52%</td>
<td>45%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Power Supply Report
ERCOT Update

- ERCOT continues to set wind records
  - ERCOT set a wind record of nearly 7,600 MW on Wednesday March 7, 2012
    - Wind was supplying 22% of the total ERCOT system load
  - ERCOT currently has 9,838 MW of installed wind capacity

- ERCOT has more coal-to-gas shift in February
  - Low natural gas prices contributed to shifting market share from coal to gas
  - As a percentage of all power generated within ERCOT, the various technologies provided the following in February 2012:
    - Natural Gas: 43.3%
    - Coal: 33.7%
    - Nuclear: 11.9%
    - Wind: 10.7%
    - Other: 0.4%

- Texas Regulators favor raising price cap
  - ERCOT considers systemwide offer cap increase to incentivize new generation
  - PUCT discussions contemplate raising the current cap of $3,000/MWh to between $4,000-$9,000/MWh

NYMEX Henry Hub ($/MMBtu)

March 15, 2012

Settlement
Forward Curve
### Member Services - February 2012

<table>
<thead>
<tr>
<th>Call Volume</th>
<th>Feb. '11 (Last Year)</th>
<th>Jan. '12 (Last Month)</th>
<th>Feb. '12 (Current)</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Calls Offered</td>
<td>62,637</td>
<td>64,448</td>
<td>55,980</td>
<td>Decreased call volume:</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• 11% lower than Feb 2011</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• 13% lower than Jan 2012</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• Attributed to:</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• Unseasonably warm weather</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• Decrease in capital credit calls</td>
</tr>
<tr>
<td>Calls Answered</td>
<td>57,342</td>
<td>58,208</td>
<td>53,222</td>
<td></td>
</tr>
<tr>
<td>Outgoing Calls</td>
<td>13,667</td>
<td>10,561</td>
<td>12,755</td>
<td>TFCC Activity:</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• High volume answering service not activated</td>
</tr>
<tr>
<td>Abandoned</td>
<td>4,510</td>
<td>6,659</td>
<td>4,065</td>
<td></td>
</tr>
<tr>
<td>TFCC Activation</td>
<td>26,664</td>
<td>2,663</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Outage Line</td>
<td>9,781</td>
<td>1,524</td>
<td>1,026</td>
<td></td>
</tr>
<tr>
<td>Virtual Hold</td>
<td>NA</td>
<td>1,584</td>
<td>501</td>
<td></td>
</tr>
<tr>
<td>Auto Attendant</td>
<td>1,436</td>
<td>1,508</td>
<td>1,492</td>
<td></td>
</tr>
<tr>
<td>Service Level</td>
<td>81.7%</td>
<td>70.3%</td>
<td>82.5%</td>
<td></td>
</tr>
<tr>
<td>Agent Utilization</td>
<td>58.3%</td>
<td>88.5%</td>
<td>81.1%</td>
<td></td>
</tr>
</tbody>
</table>

Primary metrics in managing the efficiency of phone support

### Assessment of Collection Practices

- Relaxed collections practices in Oct 2011 following extreme summer heat
- Allowed deferred agreements on reconnections for non-pay through end of Nov. 2011
- Beginning the see aged receivables trend back downward
- Increased aged receivables resulted in increased write-offs over the past 4 months
Assessment of Collection Practices

- Average write-off from Jul - Oct 2011, $116K
- Average write-off from Nov 2011 – Feb 2012, $212K
- Continuing downward trend towards industry average standard; .16
- March 2012 write-off projected to be below $100K

Member Services - Updates

Transition of Business Offices into Member Services
- Bulverde Office – February 15th
- Blanco Office – March 5th
- Manchaca Office – March 15th

CRB Implementation
- Workforce Management is working to ensure sufficient coverage and staff utilization during SAP CRB training
- The CRB Anchor Team is currently training on the new CRB interface
- 10 Road Shows scheduled to the Headquarters, Call Center, District, and Business Offices, from mid-March to mid-April

Scholarships
- Application Deadline (Total Applications to date – 277) - March 23rd
- Scoring and selection complete - April 3rd
- Announcements - April 10th
- Award scholarships to students at area High Schools - End of April through May
- Recognize Winners - Annual Meeting
Thank You.

Questions?
Subject: Revised Committee Guidelines

Submitted By: RB Sloan

Department: General Manager

Background:

ATTACHMENTS:

- Board Adopted Committee Guidelines 2012-03-19 ver 2 0 (PDF)
RESOLUTION 2012-11

Revised Committee Guidelines

WHEREAS, the Board adopted certain Committee Guidelines by resolution dated July 20, 2009, and has periodically ratified or readopted those guidelines; and

WHEREAS, the Board has determined that it is in the best interest of the Cooperative to promulgate New Committee Guidelines;

NOW THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE COOPERATIVE, that the Committee Guidelines attached to this resolution and incorporated by reference are hereby adopted and will henceforth govern the activities of Committees of the Board; and

BE IT FURTHER RESOLVED that the attached Committee Guidelines replace and supersede the prior Committee Guidelines, and shall apply notwithstanding any prior resolution; and

BE IT FURTHER RESOLVED that the Chief Executive Officer or his designee is authorized to take such actions as needed to implement this resolution.

RESULT: ADOPTED [5 TO 1]
MOVER: Dr. Patrick Cox, District 7 Director
SECONDER: William Boggs, District 2 Director
AYES: Cox, Landaker, Scanlon, Boggs, Clement
NAYS: Chris Perry
ABSENT: Ross Fischer
Pedernales Electric Cooperative, Inc.
Board Committee Guidelines
Adopted March 19, 2012

1. The Board of Directors (“Board”) of Pedernales Electric Cooperative, Inc. (“PEC” or the “Cooperative”) may establish or abolish Standing Committees or Special Policy Committees of the Board (collectively “Committees”) by a majority vote of the Board.

2. A Standing Committee may be established by a majority vote of the Board, based on subject matter jurisdiction. A Standing Committee shall exist until such time, if any, as the Standing Committee is abolished by a majority vote of the Board. Each Committee and its charter shall be reviewed and reaffirmed or amended annually, at the first Regular or Special Board meeting after the Annual Meeting of the Cooperative.

3. Each Standing Committee shall adopt a Committee charter. Any Committee charter existing at the time of adoption of these guidelines shall remain in force, to the degree consistent with these guidelines; until and unless a superseding charter is adopted.

4. All Board members will be members of each Standing Committee. Any Committee existing at the time of the adoption of these guidelines shall become a Standing Committee, with membership of such Committee expanded to include all Board members.

5. A Special Policy Committee comprising less than the entire Board may be established upon a majority vote of the Board, to perform a specific task or tasks assigned by the Board, and shall be abolished after completion of the assigned tasks, or otherwise, by a majority vote of the Board. Any resolution creating such a Special Policy Committee shall include a directive to complete specified tasks within an enumerated number of meetings by a date certain, after which the Committee shall report its findings or recommendations to the Board and the Board shall consider abolishing the Committee.

6. Nothing in this policy is intended to or shall have the effect of amending the PEC Bylaws and Open Meetings Policy, including those provisions requiring the keeping of records of meetings.

7. Meetings of all Committees shall occur on a date fixed monthly by the Board, (“Special Meeting of Board Committees”), with the chairman of each Committee presiding over the portion of the meeting at which their Committee’s business is heard. No action of the full Board is intended to be taken at any Special Meeting of Board Committees.

8. Each Committee shall have a chairperson appointed annually by the Board President and approved by the Board, at the first Regular or Special Called Board Meeting following the Annual Meeting, or at any other time when a vacancy occurs in the chair. Such chairperson shall serve in that capacity until a successor is appointed, or until removed by a majority vote of the Board.

9. Nothing in these Guidelines is intended to rescind the previous adoption by the Board of Roberts’ Rules of Order to govern the conduct of Board meetings, except that insofar as any provision in these guidelines contradicts Roberts’ Rules, these Guidelines shall control.
**RESOLUTION 2012-14**

**Subject:** Meter Data Management System RFP

**Submitted By:** RB Sloan

**Department:** General Manager

**Background:**
RESOLUTION 2012-14

Meter Data Management System RFP

BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE COOPERATIVE, that the Chief Executive Officer or any person designated by him in writing for such purpose, be, and each hereby is, authorized as a duly authorized officer or agent of the Cooperative, for and in the name and on behalf of the Cooperative, to negotiate, execute and deliver an agreement with a term of five years with such terms and conditions in such person's reasonable discretion for a meter data management system with the vendor as presented this day in Executive Session; and

BE IT FURTHER RESOLVED BY THE BOARD OF DIRECTORS OF THE COOPERATIVE, that the Chief Executive Officer or his designee is authorized to take such actions as needed to implement this resolution.

RESULT: ADOPTED [UNANIMOUS]

MOVER: Kathryn Scanlon, District 3 Director
SECONDER: William Boggs, District 2 Director
AYES: Cox, Landaker, Perry, Scanlon, Boggs, Clement
ABSENT: Ross Fischer
RESOLUTION 2012-12

Subject: Extension of Disaster Relief

Submitted By: Eddie Dauterive

Department: Member Services

Background:

Fiscal Impact:
No expenditure of Cooperative funds; no expenditures of staff time (other than ordinary processing requirements).
RESOLUTION 2012-12

Extension of Temporary Waiver of Certain Requirements of Tariff and Business Rules

WHEREAS, the Board approved at its December 2011 Regular Board meeting a temporary waiver of certain requirements of the Tariff and Business Rules through March 31, 2012 to assist members of the Cooperative and applicants for service when a public emergency occurs;

NOW THEREFORE BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE COOPERATIVE, that the Board for good cause extend such waiver as to certain deposit, connect fee and impact fee requirements of its Tariff and Business Rules as presented for those applicable members of the Cooperative and applicants for service for a period through June 30, 2012; and

BE IT FURTHER RESOLVED BY THE BOARD OF DIRECTORS OF THE COOPERATIVE, that the Chief Executive Officer or his designee is authorized to take such actions as needed to implement this resolution.

RESULT: ADOPTED [UNANIMOUS]
MOVER: Kathryn Scanlon, District 3 Director
SECONDER: William Boggs, District 2 Director
AYES: Cox, Landaker, Perry, Scanlon, Boggs, Clement
ABSENT: Ross Fischer
RESOLUTION 2012-13

Subject: NRECA Grass Roots Summit Legislative Conf 2012

Submitted By: Sylvia A. Romero

Department: General Manager

Background:
RESOLUTION 2012-13

NRECA Grass Roots Summit Legislative Conference 2012

BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE COOPERATIVE, that the following are hereby appointed and designated as authorized representatives of the Cooperative to represent PEC at the 2012 NRECA Legislative Conference: Dr. Patrick Cox and RB Sloan.

BE IT FURTHER RESOLVED that the Chief Executive Officer or his designee is authorized to take such actions as needed to implement this resolution.

RESULT: ADOPTED AS AMENDED [4 TO 2]
MOVER: Chris Perry, District 4 Director
SECONDER: Kathryn Scanlon, District 3 Director
AYES: Dr. Patrick Cox, Larry Landaker, Chris Perry, Kathryn Scanlon
NAYS: William Boggs, Cristi Clement
ABSENT: Ross Fischer
1. Call to Order

5:00 PM Meeting called to order on April 2, 2012 at PEC Headquarters Auditorium, 201 South Avenue F, Johnson City, TX.

<table>
<thead>
<tr>
<th>Attendee Name</th>
<th>Title</th>
<th>Status</th>
<th>Arrived</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dr. Patrick Cox</td>
<td>District 7 Director</td>
<td>Present</td>
<td>5:00 PM</td>
</tr>
<tr>
<td>Larry Landaker</td>
<td>District 6 Director</td>
<td>Present</td>
<td>5:16 PM</td>
</tr>
<tr>
<td>Ross Fischer</td>
<td>District 5 Director</td>
<td>Absent</td>
<td></td>
</tr>
<tr>
<td>Chris Perry</td>
<td>District 4 Director</td>
<td>Present</td>
<td>5:00 PM</td>
</tr>
<tr>
<td>Kathryn Scanlon</td>
<td>District 3 Director</td>
<td>Present</td>
<td>5:00 PM</td>
</tr>
<tr>
<td>William Boggs</td>
<td>District 2 Director</td>
<td>Present</td>
<td>5:00 PM</td>
</tr>
<tr>
<td>Cristi Clement</td>
<td>District 1 Director</td>
<td>Present</td>
<td>5:00 PM</td>
</tr>
</tbody>
</table>

Members wishing to monitor this Special Meeting were able to do so in the PEC Auditorium or watch by live-stream. Open Session was video recorded in accordance with Open Meetings Policy.

2. Welcome - Cristi Clement, PEC Board President (5:00pm)

President Cristi Clement read the attached opening statement welcoming members.

3. Director Remarks

President Cristi Clement asked if other directors would like to add remarks. Directors Dr. Patrick Cox and Kathy Scanlon made opening statements as attached.

4. Policy Issues and Decisions - RB Sloan, CEO (5:10pm)

CEO RB Sloan extended a welcome and thanked the presenters for their time, effort, and sharing of wisdom. CEO RB Sloan reported that as of today, the Cooperative received 94 comments on-line from members on the Energy Efficiency goals and 54 comments on the Renewable Energy goals. CEO RB Sloan acknowledged that many agree on the benefits of energy efficiency and renewable energy, but disagreements occur regarding the costs and funding. He added that the "Fundamentals of Energy Efficiency, Demand Management and Renewables" reference document as shared with the Board in March, was available on the sign-in table and would be posted on the website. CEO RB Sloan reviewed the power point presentation as attached. Following the presentation, he committed to make sure the Board and members have the best objective and factual information related to these initiatives to make good decisions in the best interest of the members. He added that this is perhaps the most important initiative the Cooperative has considered in recent years and will set the direction for a number of activities coming forward.

5. Explanation of Resolutions & Fiscal Impact Statements - Dale Jones, Power Supply Manager
6. **General Comments and Analysis of Resolutions - Jim Lazar, Regulatory Assistance Project (5:25pm-5:45pm)**  
Jim Lazar, a Senior Advisor with the Regulatory Assistance Project, reviewed the Energy Efficiency and Renewables Goals and provided his recommendations as shown in the attached power point presentation. Mr. Lazar answered a question on the clarification of goals.

7. **Energy Efficiency and Renewable Initiatives in Texas - Deborah Ingraham, Texas Electric Cooperatives (5:45pm-6:10pm)**  
Deborah Ingraham, Director of Regulatory and Legal Affairs for Texas Electric Cooperatives stated that cooperatives are not regulated by the Public Utility Commission (PUC), but are self-regulating by their board of directors. She also stated that fellow electric coops in Texas are committed to energy efficiency programs and incorporating renewable energy into their portfolios as much as they can. Ms. Ingraham added that these programs can be very expensive and each Board needs to weigh this when deciding what energy efficiency programs to offer and what renewable energy to invest in. Ms. Ingraham also stated that it is because of that expense, the electric cooperatives do not have a mandate from the Texas Legislature to achieve any energy efficiency goal. With the varying size of cooperatives, and the need for energy efficiency programs to be developed for the region and their membership, the Legislature recognized the importance of flexibility and for those decisions to remain with the Boards of each cooperative. Ms. Ingraham reviewed the investor-owned utility legislative mandate and the regulation that implements it. She identified Guadalupe Valley Electric Cooperative as an example of a cooperative that started a subsidiary GVEC Home, which delivers very good energy efficiency appliances and renewable energy products to its members. Ms. Ingraham also reviewed what cooperatives are doing as reported on their 2009 State Energy Conservation Office. She also reported on the small amount of members asking for solar panels and windmill installations, and the return on their investment taking longer than some sellers are communicating. Ms. Ingraham reported that the PUC has no expectations because cooperatives are not regulated by the PUC on energy efficiencies or renewables. She shared that PUC Chairperson Donna Nelson was concerned with the costs of renewables and how aggressive energy efficiency goals should be. Ms. Ingraham answered questions regarding other cooperative’s commitments to energy efficiency and renewables goals.

Director Chris Perry was no longer on teleconference, but present in person at 6:05pm. President Cristi Clement recognized Representative Jason Isaac in the audience.

8. **Assessment of the PEC Energy Efficiency Program and Resolutions- Jay Zarnikau, Frontier Associates (6:10pm-6:35pm)**
Mr. Jay Zarnikau with Frontier Associates reviewed the study of energy efficiency opportunities in the PEC service area and recommendations as shown in the attached power point presentation. Mr. Zarnikau answered questions from the Board on items including paying rebates, bill financing programs, reasons to have energy efficiency and renewable energy programs, and educational programs.

9. **Break (6:35pm-6:55pm)**
At 6:36pm President Cristi Clement called a fifteen minute break.

Mr. John Farrell, with the Institute for Local Self Reliance, reviewed the transition of energy, and the four pieces to consider with renewable energy - cost, value, scale and ownership, as shown in the attached power point presentation. There were no questions from the Board following the presentation.

11. **The Role of Energy Efficiency and Renewable Resources in LCRA's Supply Plans - Mike McCluskey, LCRA (7:15pm-7:55pm)**

Michael McCluskey, Resources Development Manager with LCRA described LCRA's role as a very large scale regional power supply provider and water provider. He reported on the role of energy efficiency and renewable resources in LCRA's supply plans as shown in the attached power point presentation. Mr. McCluskey concluded by stating that LCRA does not have plans to increase their renewable portfolio at this time. He added that there are two contracts expiring in 2014, but do not have commitments to replace those. He also added that LCRA would watch the market for good opportunities of low cost renewable resources that have direct benefit to the LCRA load zone. He reported that another option would be if LCRA customers voiced that they would like to have LCRA invest in more renewables, but they are not hearing that now. The focus has been on price. Mr. McCluskey answered questions from the Board on items including renewable energy credits, replacement of renewable wind portfolio, projection needs for generation and transmission, funding for generation currently being built, and outlook for water for cooling new plants.

12. **Member Comments (7:55pm-9:00pm)**

President Cristi Clement announced that each member would have four minutes to comment. The following members spoke on topics including, but not limited to:

Milton Hawkins- two presenters spoke with emphasis on cost and price; asking members to comment without a complete fiscal impact analysis; bad debt write-offs, rates and controllable costs are too high; debt obligations are significant; PEC is a distributor and not a generator of electrical power; estimated costs for additional amount paid in premium for renewable energy; suggest this is not a good use of members' money; want lowest possible energy cost with the best possible reliability.

Gary Wilkenon - a home builder; need to address energy efficiencies and invest in future; build more energy efficient homes, send qualified auditors to existing housing stock and educate people on how to be energy efficient.

Russ Mortensen - this is a cooperative, cost is everything; that is your job, not to set policy objectives and mandatory demand management; should be emphasizing natural gas as a major source of energy; encourage energy efficiency in the home such as lighting choices; follow suggestion to amortize rebates with a bill credit; the information on energy savers.coop as found on the table and on the website is garbage; will send his additional comments via online link.

Stephen Bosbach- work for Positive Energy as an energy rater; PEC has nice solar array at Oak Hill office; based on data on array found on website, the return on their solar investment is 17 1/2 years; need shorter return on investment as an incentive maybe something around 10 years; it can decrease peak load; water is limiter on growth; plan for decreasing growth, eventually will taper off; we are all owner members, not much difference in those participating and those that aren't.
Kapp Japlet- with HEB grocery, installing all latest technology energy management systems; 9 out of 10 stores in PEC area have energy management systems; would be interested in participating in demand side, load shed management with you; thanks for providing reliable energy.

Shey Sabripour- electrical engineer and small business owner in Lakeway; in renewable energy business for two years; cost of solar and return of investment; solar price down; also support natural gas, when makes sense use right resources, don't look at cost and price, but look at investment and overall benefits.

Lloyd Lee- green building and renewable energy company owner in Dripping Springs; specializing in net zero homes; found a few errors in Frontier data - in the cost summary for various rebate models each year was added into the cost instead of just being a label for the year, found solar numbers based on incorrect output numbers making them off by 25%, the HVAC program assumes a system lifetime of 15 years, if considering a ground source heat pump they have lifetime of 25 years and have a national proven track record to shave peak loads very effectively, additionally on solar production it was listed as a 23 year production verses a 25 year as guaranteed by manufacturers, urge to continue analyzing the rebate levels; efficiency measures are critical and energy diversity is needed; however believe that some of the previous speakers used outdated solar data or information from outside the State of Texas; solar energy is produced where it is consumed, comes with a 25 year guarantee performance from the manufacturers, does not use water, has no moving parts, and in this competitive solar market is affordable today.

Tom "Smitty" Smith - remind benefits of energy efficiencies and renewables, peak power is significantly more expensive, meeting costs of growth and demand is expensive, investing in renewables reduces pollution, creates jobs and reduces water use; LCRA studies on global warming project a 35% reduction in water flows between now and 2050; look at ways to reduce water consumption; the goal as written is one of the most aggressive goals in country; if cheaper to do efficiency than pay for growth, it may be good to have an aggressive goal; another issue is possibility is developing solar programs which are significantly cheaper than meeting peak energy.

Ernest Atlgelt - Mr. Moden has given accurate figures of why PEC worst in US in terms of cost efficiencies; get house in order before play around with solar; energy analysis for major investment firm reporting gas is future with an oversupply in US and solar will not be cost efficient for 20-30 years; CEO RB Sloan wants this cooperative to be a generator; Board is over compensated; start cost containment; list firms benchmarking against.

Louis Petrik- owner of Longhorn Solar; solar prices have come down dramatically in last few years so a lot of the numbers seen may be wrong; not necessarily do a rebate, but would like to see analysis of a rebate level that does make sense and works; solar is being installed within the PEC, Bluebonnet EC, and CoServ areas; seeing return on investment in 10-11 years and every 25 cents in rebates takes another year off the return on investment; Austin Energy requires a certain level of efficiency before qualifying for rebate; google Austin Energy for their value of solar; my company currently employs 15, hiring 4 more and growing rapidly; benefits to participating and creating more jobs; take the lead and other coops will follow.

Michael Myers- energy efficiency is a good thing and great investment; every new home built is an opportunity for energy efficiency; find savings on new construction; Frontier report was conservative; when you do energy efficiencies customer service and outreach education go hand in hand, not everybody needs strong rebate, but everyone asking for answers, opportunity for Cooperative to take the lead; great investment for the future.
David E. Hernandez- from Bank on Solar (BOS Inc.) a manufacturer of flat plate collectors; installed solar on my home and not expensive; install size of what you can afford and can add a little every year; educate members; stop leaks in your home and change habits.

Andy Wilson- spent money to build to highest building codes possible for energy efficiencies, cut energy usage just by using simple technologies; if member having difficulties paying bill, have someone look at their home for efficiencies to help bring members into good standing; that is an investment that we need to make; most radical thing PEC can do is nothing.

Mark Axfa1- want low price energy, if it can be provided by wind or solar; if not default to the lowest price energy that you as my representative are able to buy on the market; PEC opted out of competition; asked for chance to study Nueces Electric Cooperative which opted in; I trust competition, so let the market place weigh in; applaud speaker from HEB who took steps on their own and did not ask for rebates, reducing demand during on peak times will save money.

Randy Klaus - a CPA, PEC member, employed by PUC, served on MUD board, but speaking on my own behalf; if this stuff is so good, why do we have to subsidize it to buy it; Cooperative in worst situation with no regulatory oversight, no competition, no mandate; maybe only solution is customer choice and Board has authority to do under current law; be careful Legislature convenes in January; last Spring placed simple timer on electric water heater and insulated it, added CFL light bulbs, doubled attic insulation to reduce consumption by 25%; fear this board trying to solve a problem that you need not do; will post my comments.

James Halbert- members own a distribution company; no one against energy efficiency and renewables, problem is difference in opinion of who pays for these; energy efficiency program that benefits $4 for every $1 spent; the participating member gets the benefit, but everyone pays for it; putting burden of the cost to all members; the people who benefit from it should pay for it; we are paying a premium for wind energy; don't force those who do not want to participate in the higher costs of green energy; of the 245,000 meters only 367 meters have participated in the green energy program.

13. Closing Remarks - (9:00pm)
President Cristi Clement thanked the members for their comments and the presenters who helped to provide a better understanding.

14. Adjourn
There being no further business to come before the Board of Directors, meeting was adjourned at 9:00pm.

Larry Landaker, Secretary
APPROVED:

Cristi Clement, President
Welcome all of our audience, welcome the members that are in attendance in particular, maybe some of them are watching from home. It is important to know this meeting was called particularly to invite the members to participate. This Board is considering revisions to our Renewable and Energy Efficiency goals. This will impact all members.

Tonight’s discussion will be an opportunity for the full Board, especially those of us who are not on the Energy Committee, to do our due diligence, to hear from these speakers and learn more of the concepts and intricacies included within these initiatives. We must make an informed decision on a very complex matter. We also want to hear from our members on this subject because we believe your view is critical and valued. Member input will continue to be accepted through May 10\textsuperscript{th}, preferably through our website, but there is an open period and it does not close until then. So I invite you to participate after this event as well.

I want to thank RB and his staff for organizing and arranging to have these distinguished speakers here tonight to help educate us. I also want to recognize the Energy Committee for their work on this initiative. They have worked diligently on it for almost a year. I look forward to hearing from our staff, our speakers, and most particularly our members.

Our challenge with embracing renewable power sources and PEC and its members becoming as energy efficient as possible when utilizing the energy we deliver is that we also have a desire to control costs. This Board must evaluate the desire to ramp up these new energy efficiency and renewable goals that will increase controllable costs in the short run with the hope of reducing future costs. This Board and staff have the obligation to always strive to make decisions that are in the best interest of the Cooperative and the entire membership.

My goal is to obtain factual and objective information from staff, outside experts, and from our members before the Board sets policy. The Board takes this responsibility extremely seriously and this is the very purpose of tonight’s meeting. We have a very aggressive agenda and I ask that we be mindful of our time schedule. We want to make sure we have adequate time for all members to make their comments and perhaps we can conclude around 9:30pm, but we will stay until every member has their say. Before I ask RB to begin, I would like to ask if other Directors would like to make any brief comments and if so we have about 5 minutes remaining.
Director Dr. Patrick Cox's Opening Statement

Thank you to PEC staff and participants Important forum as part of policy development while conducting in an open and transparent manner

For the past year, the Energy Comm and PEC has been in process of review of 08 resolutions on efficiency and renewables

Desire to conduct periodic reviews and updates of the policy to reflect changes in the energy market, the economy and needs of pec and our members

Research and review of other utilities best practices along with other research and studies and how these could be utilized by PEC. Have many experts that can provide relevant information and many of our own members have expertise that we can use for everyone's benefit.

Examine the benefits and costs to make the best decisions for the PEC and it's members. We believe this is a long term plan and commitment that will evolve and change over time.
Director Kathy Scanlon’s Opening Statement

Over 3 years ago, Dr. Cox and I submitted resolutions for renewable energy and energy efficiency goals, which was passed unanimously by the board at that time.

Since then, we have made great progress towards the renewable energy goal, and are now getting about 21% of our energy from renewable sources. We also continued to offer rebates for efficiencies in commercial lighting and HVAC units.

I believe that global climate change along with our use of finite energy resources which will run out someday, poses one of the, if not the greatest challenge that our civilization must deal with in the coming decades. I plan to do whatever I can in my position to deal with these issues.

I look forward to this Energy Forum – I think it will be very useful to hear from our members, and to be able to explore ways of measuring efficiency improvements and to increase our use of renewable energy in a fiscally responsible manner.
PEC Forum on Energy Efficiency and Renewable Resources

Special Board Meeting
April 2, 2012

Energy Efficiency and Demand Management

- In 2011, PEC spent $1.9 million for educational and rebate initiatives
- Produced ~4.5 MW of demand reduction or 12% of the past 5 year average residential and commercial demand growth

- Educational Activities
  - Energy Efficiency School Workshops
  - Conservation Blog
  - Do-it-Yourself (DIY) campaign
  - Touchstone’s "Together We Save" interactive home
  - Beat the Peak

- Rebates and Services
  - HVAC Rebates
  - Commercial Lighting Rebates
  - MyUse Energy Analyzer
  - Energy Audits
  - Consert DM and EE Pilot
  - Facilitate member participation in ERCOT EILS demand management program
Renewable Power

- **2011 Renewable Capacity and Energy Purchases**
  - Renewable Percentage Capacity of 21% and Energy 12%
  - South Trent Wind premium of $7.7 million (approximately $0.025/kWh)
    - The primary driver of this premium is transmission congestion costs
  - PEC is on track to achieve the BOD Goal of 30% renewable capacity by 2020

- **Distributed Generation Interconnections**
  - Total Interconnects Renewable Resources - **Count: 149 and Capacity: 624 kW**
    - Solar - 124 installations with a rated capacity of 517 kW
    - Wind - 25 installations with a rated capacity of 107 kW

- **PEC Solar Facilities**
  - 3.6 kW Solar arrays at Oak Hill and Liberty Hill District Offices

- **Distributed Generation Pilot RFP**
  - Developing proposals focused on ways to lower the Members cost of renewable DG options

---

### 2011 Renewable Goal Calculation

**Current Calculation**

\[
\frac{\text{Renewable Capacity}}{\text{ERCOT 4CP}} = \text{Renewable \%}
\]

\[
\frac{260 \text{ MW}}{1,221 \text{ MW}} = 21\%
\]

**Proposed Calculation**

\[
\frac{\text{Renewable Capacity}}{\text{PEC System Peak}} = \text{Renewable \%}
\]

\[
\frac{300 \text{ MW}}{1,412 \text{ MW}} = 21\%
\]

Additional 40 MW to maintain 21%
Board Considerations

- Financial
  - Cost
    - Short Term
      1. EE ($7-14/meter/year)
      2. Renewable (~$0.025/kWh)
    - Long Term
      1. EE (ROI, PACT, RIM)
      2. Renewable (Congestion charges/Market prices)

- Philosophical
  - Tangible
    - EE and Renewables
      1. Conserves natural resources
      2. Lowers emissions
      - EE
      1. Saves participants $$$

Renewable and Energy Efficiency Goals

Proposed Revisions and Associated Fiscal Impact Statements
Renewable Goal Revisions

- **Clarification changes**
  - Establishes minimum level to achieve rather than a target
  - Clearly established that the goal is measured based on capacity

- **Change from ERCOT 4CP to Annual system peak for measurement**
  - Subjects the calculation to a much greater extent to extreme weather events
  - To maintain 2011 percentage estimated the fiscal impact to be $3-5 million/year

- **Requires PEC to develop a renewable DG plan**
  - Expectations related to this plan are unclear
  - Estimated fiscal impact of $100-500K in consulting fees

- **Requires PEC to “pay a price for distributed renewable generation that reflects its value”**
  - It is unclear as to what this revision envisions, Avoided cost or a feed-in tariff
  - We currently pay avoided costs for any excess energy
  - Fiscal impact was estimated at $500K-$2MM/year

Energy Efficiency Goal Revisions

- **Clarification changes**
  - Establishes minimum level to achieve rather than a target
  - Defines the goal to be based on capacity and includes Demand Management
  - Establishes average demand growth for goal measurement

- **Requires a 15% reduction of demand growth for years 2013 & 2014**

- **Requires a 20% reduction of demand growth for 2015 and subsequent years**

- **Requires that EE programs to be designed to save energy using a 20% capacity factor**
  - 1 kW demand reduction must also reduce energy by 1,752 kWh/year
  - Need to clarify if this requirement would not apply to DM programs

- **Fiscal impact is estimated at $16 million for the period 2013 – 2016**
  - This estimate is based on information from Frontier Study
RESOLUTION 2012-4

Subject: Revised Energy Efficiency Goal

Submitted By: Luanne Coleman

Department: Committee - Energy

Background:

Fiscal Impact:

Based upon initial review of proposed changes to the goal the fiscal impact is estimated to be approximately $16 million for the period 2013 to 2016. This determination is based on analysis performed as part of the Frontier Program Concepts Report. It is estimated that annual expenditures will increase approximately $4 million for additional program rebates and increased administration costs.

To develop a more complete Fiscal Impact Analysis, additional review and BOD clarification is required, regarding the following:

• Defining annual system peak. It is recommended that the goal for energy efficiency and demand management programs should be measured by first determining PEC’s rolling 5 year average demand growth. For the current year, the 5 year average demand growth will be calculated using the previous 5 years ERCOT average 4CP for PEC. For forecasting the rolling 5 year average demand growth for the future years we will utilize the peak summer demand from our most current load forecast.

• The requirement for programs designed to meet these demand reduction goals shall also be designed to save energy using a 20% capacity factor. It is recommended that this requirement would not apply to demand management programs where demand reduction can be measured and verified.

ATTACHMENTS:

• Revised Energy Efficiency Goal 02202012 (PDF)
• FrontierReport Final 2slides per pg (PDF)
RESOLUTION 2012-4

Revised Energy Efficiency Goal

BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE COOPERATIVE that the attached revised Energy Efficiency Goal, the affiliated fiscal impact and the Frontier Report be posted for member comment for a period of 60 days with comments to be reviewed at the May Regular Board Meeting; and

BE IT FURTHER RESOLVED BY THE BOARD OF DIRECTORS OF THE COOPERATIVE that a member forum on Energy Efficiency and Renewable Energy be held within the same 60 day period; and

BE IT FURTHER RESOLVED BY THE BOARD OF DIRECTORS OF THE COOPERATIVE that the Chief Executive Officer or his designee is authorized to take such actions as needed to implement this resolution.

RESULT: ADOPTED AS AMENDED [UNANIMOUS]
MOVER: Larry Landaker, District 6 Director
SECONDER: Dr. Patrick Cox, District 7 Director
AYES: Cox, Landaker, Fischer, Perry, Scanlon, Boggs, Clement
WHEREAS, the Pedernales Electric Cooperative (PEC) is the largest electric cooperative in the nation, one of the fastest growing utilities in Texas and the nation, and the PEC Board of Directors has previously by resolution dated September 15, 2008 passed an Energy Efficiency Goal that established PEC as a national leader in energy efficiency and conservation among the nation’s electric cooperatives, and

WHEREAS, energy efficiency is recognized as the lowest cost method of meeting the increased costs in transmission, distribution, and energy purchases due to the population and business growth in the PEC service area resulting in the increasing demand and for electricity by PEC residential and commercial members, and

WHEREAS, the PEC has established energy efficiency programs and conservation practices since 2008 that have saved participating PEC members $4 for every $1 invested through savings in lower purchases of energy and from lower transmission and distribution expenses as determined in a 2011 independent study conducted for the PEC, and

WHEREAS, energy efficiency will continue to reduce PEC member utility bills and energy costs to the operation of PEC while recognizing the need to reduce peak and overall demand, the number of unpaid accounts, and will encourage economic development and creation of local jobs, and

WHEREAS, the Energy Committee has recommended that the following amendments to the Energy Efficiency Goal clarify the goal and serve well the members of PEC;

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE COOPERATIVE, that the Energy Efficiency Goal of the Cooperative be amended as follows:

RESOLVED BY THE BOARD OF DIRECTORS OF THE COOPERATIVE that Cooperative shall administer cost effective Energy Efficiency and Demand Management Programs with the goal of achieving reductions of 15% of future demand growth for the years 2013 and 2014 and 20% for the year 2015 and subsequent years consistent with our commitment to bringing value to the membership and in support of our environmental stewardship. The Cooperative will strive to accomplish this by building on existing programs and the implementation of new innovative cost effective programs. Programs will focus on maximizing value to the membership by informing all members of EE and DM opportunities while not imposing unreasonable costs on members not participating in the programs.

In 2011, PEC achieved approximately 4,500 kW demand reductions by the implementation of cost effective energy efficiency programs. PEC will review annually the energy efficiency potential, the goal, overall performance, and standards for evaluation in order to achieve the best cost effective and successful energy efficiency and conservation programs for the benefit of PEC and its members.
The demand-reduction goal for each program year is calculated by multiplying the average growth rate in annual system peak demand for residential and commercial customers according to the Cooperative’s most recent load forecast by the percentage goal for the year. The calculated demand reduction goal for any year shall not be lower than the goal for the prior year. Programs designed to meet these demand reduction goals shall also be designed to save energy using a 20% capacity factor.

BE IT FURTHER RESOLVED, that the Chief Executive Officer or his designee is authorized to take such actions as needed to implement this resolution.
Pedernales Electric Cooperative

Final Program Concepts Report

Frontier Associates, LLC
November 4, 2011

1515 S. Capital of Texas Hwy
Suite 110
Austin, TX 78746

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Introduction

Frontier Associates, LLC (Frontier) has been contracted by Pedernales Electric Cooperative (PEC) to address a PEC Board resolution to achieve reductions of up to 20 percent of its members' future energy requirements. Additionally, the Board resolved that the Cooperative would ensure its energy efficiency programs meet the cost-effectiveness standards established by the Public Utility Commission of Texas (PUCT) in Substantive Rule 25.181(d).

PEC's 2010 energy efficiency portfolio achieved both energy savings and demand reduction, however because there was no methodology in place to calculate cost-effectiveness of these programs, efforts to determine the value of the programs in light of Rule 25.181(d) were hindered.

As a result, Frontier calculated the cost-effectiveness of PEC's 2010 Residential HVAC and Commercial Lighting programs. The results of this analysis are provided in Appendix A. In addition, Frontier has recommended additional programs to be included with the energy efficiency portfolio that will help PEC meet its Board resolution.

PEC's 2010 programs pass the cost-effectiveness standards that the PUC applies to the investor-owned electric utilities (IOUs) in Texas. Moreover, they were cost-effective investments taking into account the actual costs incurred by PEC to purchase generation and transmission services to meet the requirements of PEC's members.

We recommend that PEC continue to offer its existing Residential HVAC program. However, Frontier recommends some minor changes to participation levels, total incentive budgets and administrative costs in this program to reflect changes in baseline conditions in the market place. In regards to PEC’s Commercial Lighting program, Frontier recommends that the existing lighting measures be offered under the umbrella of a more comprehensive commercial program in order to lower administrative costs and eliminate competition between programs that would feature duplicate measures.

Other cost-effective residential and commercial program opportunities are available to PEC and are presented in Frontier’s recommendations. Frontier recommends that PEC’s energy efficiency portfolio be expanded to include the following programs:

- **Residential Programs:**
  - New Home Construction Program (NHCP)
  - Home Energy Efficiency Program (HEEP)
  - Residential HVAC Program

- **Commercial Programs:**
  - Benchmarking Schools and Cities Program (BSCP)
  - Comprehensive Commercial Program (CCP)
  - Cooling and Motors
  - Load Management Program

The following programs were analyzed by Frontier but were excluded from the recommended portfolio because they did not pass the cost-effectiveness tests:

- Residential Photovoltaic (PV) Pilot Program
- Commercial PV Pilot Program

The results of the program design and cost-effectiveness analyses for the Residential PV Pilot Program and Commercial PV Pilot Program can be found in Appendix C.

These program recommendations were designed by Frontier with flexibility in mind. Budget, participation and savings numbers were set at optimum levels in order to yield the highest levels of realistic cost-effectiveness. However, these levels can be easily scaled down to provide PEC with a customized portfolio to suit its needs. Similarly, any of the recommended programs can be eliminated at the request of PEC.

It is also important to note that all program details included within Frontier’s recommendations are to be considered forecasts, meaning that program results cannot be guaranteed due to any number of real-world variables. As a result, all recommendations and projections should be reexamined and adjusted annually.

Goal Scenario Framework

As presented in the Program Concept Budget Report, Frontier created a series of goal scenarios, based upon different interpretations of PEC’s Board Resolution to guide its analysis and establish tentative budgetary, energy and demand reduction goals. Using feedback from PEC’s Energy Committee and speculative approximations regarding achievable potential for participation and savings levels, Frontier settled on a tentative goal scenario to guide program design based upon 20% of annual demand growth. This goal scenario was presented to PEC's Energy Committee meeting on August 17th, 2011, and is outlined in Appendix B.

With this goal scenario as a guide, Frontier produced a portfolio of efficiency programs that were cost-effective, based upon design best practices, and comprehensive in nature. As the program design process unfolded, it became evident that this guiding goal scenario required revisions due to the characteristics of PEC's service territory and market conditions. Taking these factors into account, Frontier established a more informed set of program projections. Table 1 contains the forecasted results of the recommended energy efficiency portfolio found within this report.
was dedicated to administrative costs in all years. In addition, the administrative dollars for the Load Management Program did not follow a percentage 
1 The Residential HVAC Program is an exception to this approach due to it being an existing program. As such, 15% of the Residential HVAC program budget 
Wholesale Energy Pricing Schedule. Again the avoided costs of energy are escalated for inflation at 2% per 
Cost Test would indicate that the value of saved energy is greater than the program costs, making that program 
customer, and any increased supply costs. A benefit-cost ratio greater than 1.00 in the Program Administrator 
Individual program budgets were then split between incentive and administrative cost in the following manner, 
PEC’s total budget would be spent on commercial programs and 70% would be allocated to residential 
energy efficiency measures.

Frontier used PEC’s “energy usage by rate category” data to allocate projected budgets between residential and 
commercial customers. Based on this data, approximately 30% of PEC’s total kWh sales stem from commercial 
customers; the remaining 70% stems from residential customers. As a result, Frontier estimated that 30% of 
PEC’s total budget would be spent on commercial programs and 70% would be allocated to residential 
programs. Individual programs within the residential and commercial portfolios were then assigned 
a percentage of that portfolio’s budget based on a cost-effectiveness ranking by program type as experienced by 
similar IOU programs.

For example, 70% of the total budget was dedicated to the residential portfolio, with the largest portion of that 
amount being used to fund the New Home Construction Program due to its high relative cost-effectiveness. 
Individual program budgets were then split between incentive and administrative cost in the following manner, 
with higher administrative costs in earlier years to account for program startup:

By implementing Frontier’s recommended portfolio, PEC would reduce its projected peak demand growth 
between 2012 and 2016 by 18.3%. By comparison, if PEC continued offering only the Residential HVAC and 
Commercial Lighting Programs, as administered in 2010, only 9.6% of the demand growth experienced between 
2010 and 2016 would be reduced.

As the Board Resolution states, “This goal will be further developed in committee,” Frontier advises that the 
program recommendations and levels of achievable potential within this report be used to inform the decision 
making process of future Board Resolutions pertaining to future energy or demand reductions.

Program Recommendations

Planning Process

Frontier evaluated all potential programs according to the standards of PUC Substantive Rule 25.181(d), which 
typically applies to the IOUs. Unlike many other states, Texas does not require IOUs to conduct a full set of 
cost-effectiveness tests (for example, the Total Resource Cost Test and others as prescribed by the California 
Standard Practice Manual). Instead, per PUC Substantive Rule 25.181(d), “an energy efficiency program is 
deemed to be cost-effective if the cost of the program to the utility is less than or equal to the benefits of the program.” Costs include rebates, measurement & verification, research and development, and administrative 
costs. When conducting this portion of the analysis, Frontier utilized the avoided costs of energy ($0.06400/kWh, escalated at 2% per year) and demand ($80/kW held constant) established by the PUC rule. Benefits consist of the value of demand reductions and energy savings resulting from the implementation of 
energy efficiency measures.

In addition to evaluating potential programs from the perspective of PUC Substantive Rule 25.181(d), Frontier 
also applied the Program Administrator Cost Test (also known as the Utility Cost Test) to those programs to 
determine cost-effectiveness from the perspective of the utility implementing the program. The Program 
Administrator Cost Test examines the extent to which utility bills will increase by measuring the net costs of a 
program based on the costs incurred by the utility (including incentive costs) and excluding any net costs 
incurred by the participant.

The benefits for the Program Administrator Cost Test are defined as the avoided supply costs of energy and 
Demand. The costs are considered to be program costs incurred by the utility, the incentives paid to the 
customer, and any increased supply costs. A benefit-cost ratio greater than 1.00 in the Program Administrator 
Cost Test would indicate that the value of saved energy is greater than the program costs, making that program 
cost-effective from the perspective of the utility.

Once these blanket percentages were applied, Frontier manually adjusted budgets both between and within 
programs to account for program-specific market barriers. All rebate amounts, participation levels, and savings 
estimates were established according to best practices of similar programs run by Texas IOUs and others that 
were identified as proxy candidates through Frontier’s research.

Explanation of Cost-Effectiveness

Frontier evaluated all potential programs according to the standards of PUC Substantive Rule 25.181(d), which 
typically applies to the IOUs. Unlike many other states, Texas does not require IOUs to conduct a full set of 
cost-effectiveness tests (for example, the Total Resource Cost Test and others as prescribed by the California 
Standard Practice Manual). Instead, per PUC Substantive Rule 25.181(d), “an energy efficiency program is 
deemed to be cost-effective if the cost of the program to the utility is less than or equal to the benefits of the program.” Costs include rebates, measurement & verification, research and development, and administrative 
costs. When conducting this portion of the analysis, Frontier utilized the avoided costs of energy ($0.06400/kWh, escalated at 2% per year) and demand ($80/kW held constant) established by the PUC rule. Benefits consist of the value of demand reductions and energy savings resulting from the implementation of 
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program based on the costs incurred by the utility (including incentive costs) and excluding any net costs 
incurred by the participant.

The benefits for the Program Administrator Cost Test are defined as the avoided supply costs of energy and 
Demand. The costs are considered to be program costs incurred by the utility, the incentives paid to the 
customer, and any increased supply costs. A benefit-cost ratio greater than 1.00 in the Program Administrator 
Cost Test would indicate that the value of saved energy is greater than the program costs, making that program 
cost-effective from the perspective of the utility.

When conducting this portion of the analysis, Frontier utilized the avoided costs of energy and demand that PEC 
would forgo according to the WP4 Time of Use (TOU) Billing Option as outlined in the Confidential LCRA-
Wholesale Energy Pricing Schedule. Again the avoided costs of energy are escalated for inflation at 2% per
year, while the avoided costs of demand are held constant over time in order to reflect anticipated changes to the transmission cost of service (TCOS) fees that PEC will likely experience in the coming years. According to the Confidential LCRA-Wholesale Energy Pricing Schedule, there are six charge types, each with their own billing rate: Summer Economy, Summer Normal, Summer Peak, Non-Summer Economy, Non-Summer Normal and Non-Summer Peak. In order to determine the appropriate charge type and avoided cost of energy for each measure, Frontier created load curves using specialized engineering software which calculates when energy savings are likely to occur for each energy efficiency measure.

The following section of the report outlines Frontier’s program recommendations, to include the following details:

- Forecast program participation levels
- Benefit-cost analysis
- Implementation strategies (outsourcing vs. implementation with in-house resources)
- Program goals and guidelines
- Suggested rebate or incentive levels

Frontier has not provided the following materials/services. These tools are required to fully implement each program, but can be developed by PEC, third party contractors, or by Frontier as a Phase II project:

- Program manuals
- Websites
- Marketing materials
- Training for implementation team
- RFPs (for programs that might rely on outside implementation firms)

Recommended Portfolio Overview

Addressing Market Barriers

A number of barriers may impede residential customers’ decisions to pursue home efficiency improvements which are presented within the recommended portfolio. These barriers include:

- **Lack of information:** where the consumer does not know enough about the technology and payback to determine whether to participate
- **Financing:** even with incentives, customers may not have the necessary funds to pay for the efficiency measures
- **Organizational practices or customs:** where decisions may reside with the uninformed or an entity that does not pay the bills
- **Misplaced incentives:** especially for multifamily residences in which the landlord owns the housing structure but the tenant pays the electric bill
- **Asymmetrical Information and Opportunism:** customers may mistrust advertising information about appliance cost savings
- **Product or service unavailability:** highly efficient equipment options may not be plentiful in the service territory
- **Bounded rationality:** customers may act against their own best economic interest
- **Hassle/Transaction Costs:** efficiency receives little attention from planners making capital

To try to overcome those barriers, PEC or the program implementer would:

- **Educate** and inform customers and landlords with its web site
- **Hold special events and write press releases** to raise awareness of efficiency projects and their benefits
- **Offer outreach** to eligible customers; PEC should emphasize the energy savings and added comfort that customers will receive by participating in the program
- **Provide rebates** toward the purchase of more energy efficient equipment
- **Market to building management groups** to help them understand they can improve market share by promoting their space as energy efficient
- **Provide program information** to engineering and technology firms that focus on commercial cooling and motors to enlist their assistance in marketing the program to their customers
- **Developing resources** to connect customers with qualified, participating contractors
Portfolio Cost-Effectiveness

The middle column of Table 3 displays the results of the Program Administrator Cost Test, benefits and costs of the recommended program portfolio based on PEC’s avoided costs as outlined by its contract with the Lower Colorado River Authority (LCRA) and the transmission charges imposed by the PUCT to reimburse transmission providers in the Electric Reliability Council of Texas (ERCOT) power region.

These figures yield an overall net benefit of $48,892,930 and a benefit-to-cost ratio 3.97. The PACT result shows that the value of saved energy is greater than the program cost, making it cost-effective from the program administrator’s perspective.

The final column of Table 3 shows cost-effectiveness results from the Program Administrator Cost Test using the PUCT’s assumed avoided costs under PU Substantive Rule 25.181(d): $80/kW and $0.064/kWh. Since these avoided costs are greater than true avoided costs that PEC experiences, the benefit-to-cost ratio is slightly higher at 4.46, with net benefits of $56,978,820.

Table 3. Cost-Effectiveness of the Full Recommended Portfolio

<table>
<thead>
<tr>
<th>Program</th>
<th>Benefit/Cost Ratio</th>
<th>Net Benefits ($000s)</th>
<th>Total Benefits ($000s)</th>
<th>Total Costs ($000s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>NHCP</td>
<td>3.97</td>
<td>48,892.93</td>
<td>56,978.82</td>
<td>16,457.25</td>
</tr>
<tr>
<td>HEEP</td>
<td>4.46</td>
<td>56,978.82</td>
<td>65,350.18</td>
<td>16,457.25</td>
</tr>
</tbody>
</table>

Table 4 displays the forecasted total portfolio participation, savings, and budget details.

Table 4. Forecasted Portfolio Details

<table>
<thead>
<tr>
<th>Year</th>
<th>Annual Participants</th>
<th>Annual kW Reduction in Peak Load</th>
<th>Annual kWh Energy Savings</th>
<th>Annual Rebate Costs ($)</th>
<th>Annual Admin Costs ($)</th>
<th>Total Annual Program Costs ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>6,625</td>
<td>6,937</td>
<td>13,432,486</td>
<td>$2,487,666</td>
<td>$923,919</td>
<td>$3,411,585</td>
</tr>
<tr>
<td>2013</td>
<td>7,489</td>
<td>7,535</td>
<td>15,104,637</td>
<td>$2,807,597</td>
<td>$967,475</td>
<td>$3,775,072</td>
</tr>
<tr>
<td>2014</td>
<td>8,338</td>
<td>8,054</td>
<td>16,452,138</td>
<td>$3,090,716</td>
<td>$793,337</td>
<td>$3,884,053</td>
</tr>
<tr>
<td>2015</td>
<td>8,355</td>
<td>8,135</td>
<td>16,362,386</td>
<td>$3,095,518</td>
<td>$649,491</td>
<td>$3,740,009</td>
</tr>
<tr>
<td>2016</td>
<td>8,303</td>
<td>8,180</td>
<td>16,140,846</td>
<td>$3,075,526</td>
<td>$490,191</td>
<td>$3,565,717</td>
</tr>
</tbody>
</table>

Residential Programs

The recommended Residential Program Portfolio is composed of the following programs:

- New Home Construction Program (NHCP)
- Home Energy Efficiency Program (HEEP)
- Residential HVAC Program

The annual program budget for each residential program is outlined in Table 5.

Table 5. Annual Budget Breakdown of Residential Programs

<table>
<thead>
<tr>
<th>Year</th>
<th>New Home Construction Program (NHCP)</th>
<th>Home Energy Efficiency Program (HEEP)</th>
<th>Residential HVAC</th>
<th>Total Residential Portfolio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>$183,301</td>
<td>$831,946</td>
<td>$1,196,520</td>
<td>$2,212,367</td>
</tr>
<tr>
<td>2013</td>
<td>$180,675</td>
<td>$915,315</td>
<td>$1,292,614</td>
<td>$2,488,604</td>
</tr>
<tr>
<td>2014</td>
<td>$171,889</td>
<td>$993,561</td>
<td>$1,368,909</td>
<td>$2,534,359</td>
</tr>
<tr>
<td>2015</td>
<td>$158,156</td>
<td>$990,027</td>
<td>$1,245,430</td>
<td>$2,401,613</td>
</tr>
<tr>
<td>2016</td>
<td>$143,272</td>
<td>$1,002,898</td>
<td>$1,084,485</td>
<td>$2,240,655</td>
</tr>
</tbody>
</table>

New Home Construction Program

Program Description

The New Home Construction Program is a comprehensive long-term new home energy efficiency program targeted to residential customers and builders. The purpose of the program is to make builders and homeowners aware of the benefits of energy efficient building practices, while increasing the overall efficiency, quality and sustainability of customer homes, ultimately helping assist customers in managing energy costs.

Frontier recommends that the program be introduced using the standards delineated by the Environmental Protection Agency’s ENERGY STAR Homes program. However, since the many of those ENERGY STAR building practices are becoming commonplace Frontier recommends eventually transition the NHCP to embracing the more ambitious standards of the National Association of Home Builders (NAHB) Green Home Building guidelines.

Efficiency measures that are recommended by these guidelines include: high efficiency cooling and heating; tighter home construction; high efficiency water heating; higher levels of wall, ceiling, floor and slab insulation; and high efficiency windows. Other components of the NAHB Green Home Building guidelines recommend using recycled building material, adding rainwater collection for lawn care, day lighting, and numerous other “green” building characteristics. NHCP design would help to reduce both energy consumption and peak demand for PEC.

Several other electric utilities within the region have implemented programs similar to the NHCP with success including Austin Energy, Magic Valley Electric Cooperative, Entergy Texas, and Oncor Electric delivery. As a
result, many builders in PEC’s service territory should have a high level of familiarity with the concepts of the NHCP, potentially decreasing the need to invest in contractor education.

Program Overview

Incentive Structure

Incentives are provided through direct rebates to residential builders for completed ENERGY STAR qualified new home construction projects. Homes that meet the ENERGY STAR qualifications qualify for $275.

Cost-Effectiveness Results

Table 6 displays the results of the Program Administrator Cost Test using both PEC’s avoided costs and the PUC’s avoided costs, respectively.

Table 6. Cost-Effectiveness of NHCP

<table>
<thead>
<tr>
<th>Benefit/Cost Ratio</th>
<th>Program Administrator Cost Test-Using PEC's Avoided Costs</th>
<th>Program Administrator Cost Test-Using PUC's Avoided Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Benefits ($000s)</td>
<td>1,427.18</td>
<td>1,794.25</td>
</tr>
<tr>
<td>Total Benefits ($000s)</td>
<td>2,187.49</td>
<td>2,554.56</td>
</tr>
<tr>
<td>Total Costs ($000s)</td>
<td>760.31</td>
<td>760.31</td>
</tr>
</tbody>
</table>

Program Details

Table 7 outlines the forecasted levels of annual participation, cumulative demand and energy savings values, and budget breakdown of the NHCP.

Table 7. Program Details of NHCP

<table>
<thead>
<tr>
<th>Year</th>
<th>Annual Participants</th>
<th>Cumulative kW Reduction in Peak Load</th>
<th>Cumulative kWh Energy Savings</th>
<th>Annual Rebate Costs ($)</th>
<th>Annual Admin Costs ($)</th>
<th>Total Annual Program Costs ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>150</td>
<td>166</td>
<td>201,385</td>
<td>$41,250</td>
<td>$142,651</td>
<td>$183,901</td>
</tr>
<tr>
<td>2013</td>
<td>175</td>
<td>359</td>
<td>440,668</td>
<td>$48,125</td>
<td>$132,550</td>
<td>$180,675</td>
</tr>
<tr>
<td>2014</td>
<td>200</td>
<td>581</td>
<td>711,849</td>
<td>$55,000</td>
<td>$116,889</td>
<td>$171,889</td>
</tr>
<tr>
<td>2015</td>
<td>250</td>
<td>857</td>
<td>1,050,824</td>
<td>$68,750</td>
<td>$89,406</td>
<td>$158,156</td>
</tr>
<tr>
<td>2016</td>
<td>300</td>
<td>1,189</td>
<td>1,457,995</td>
<td>$82,500</td>
<td>$60,772</td>
<td>$143,272</td>
</tr>
</tbody>
</table>

Home Energy Efficiency Program (HEEP)

Program Description

The Home Energy Efficiency Program (HEEP) seeks to generate energy and demand savings for residential customers through the promotion of comprehensive efficiency upgrades to existing building envelope measures. The objective of the HEEP is to provide PEC residential customers with incentives for increasing the building envelope efficiencies of their home. Audits conducted by PEC staff or a third party contractor help customers identify efficiency weaknesses in their homes and suggest changes in behavior to reduce utility bills. In addition, the HEEP will help customers recognize improved comfort levels as a result of upgrading their home’s thermal envelope.

The program is designed to facilitate the installation of a wide range of cost-effective measures including:

- Ceiling insulation
- Wall insulation
- Floor insulation
- Duct sealing and insulation
- Air infiltration reduction
- Solar screens (on east and west facing glass only)
- ENERGYSTAR windows

Table 8. Solar Screen, Energy Star Windows and Duct Sealing Incentive Schedules

<table>
<thead>
<tr>
<th>Measure</th>
<th>Rebate-Schedule</th>
</tr>
</thead>
<tbody>
<tr>
<td>Solar Screens</td>
<td>$1.00/sq. ft.</td>
</tr>
<tr>
<td>Energy Star Windows</td>
<td>$2.50/sq. ft.</td>
</tr>
<tr>
<td>Duct Sealing</td>
<td>$0.19/kWh reduction and $200/kW reduction</td>
</tr>
</tbody>
</table>

Table 9. Incentive Schedule for Air Infiltration

<table>
<thead>
<tr>
<th>Heating Type</th>
<th>Gas</th>
<th>Electric Resistance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rebate ($/CFM50 Reduction)</td>
<td>$0.075</td>
<td>$0.239</td>
</tr>
</tbody>
</table>

Table 10. Incentive Schedule for Ceiling Insulation

<table>
<thead>
<tr>
<th>Starting R-Values</th>
<th>Gas Heat</th>
<th>Electric Resistance Heat</th>
<th>Heat Pump Heat</th>
</tr>
</thead>
</table>
### Table 11. Incentive Schedule for Wall Insulation

<table>
<thead>
<tr>
<th>Heating Fuel Type</th>
<th>Incentive Amount ($/Sq. Ft.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>R-0</td>
<td>$0.44</td>
</tr>
<tr>
<td>R-1 to R-4</td>
<td>$0.27</td>
</tr>
<tr>
<td>R-5 to R-8</td>
<td>$0.14</td>
</tr>
<tr>
<td>R-9 to R-14</td>
<td>$0.07</td>
</tr>
<tr>
<td>R-15 to R-22</td>
<td>$0.03</td>
</tr>
</tbody>
</table>

### Table 12. Incentive Schedule for Floor Insulation

<table>
<thead>
<tr>
<th>Heating Type</th>
<th>Site Built Home ($/Sq. Ft.)</th>
<th>Manufactured Home ($/Sq. Ft.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gas Heat</td>
<td>$0.07</td>
<td>$0.06</td>
</tr>
<tr>
<td>Electric Resistance Heat</td>
<td>$0.61</td>
<td>$0.60</td>
</tr>
<tr>
<td>Heat Pump Heat</td>
<td>$0.27</td>
<td>$0.26</td>
</tr>
</tbody>
</table>

### Table 13. Cost-Effectiveness of HEEP

<table>
<thead>
<tr>
<th>Year</th>
<th>Annual Participants</th>
<th>Cumulative kW Reduction in Peak Load</th>
<th>Cumulative kWh Energy Savings</th>
<th>Annual Rebate Costs ($)</th>
<th>Annual Admin Costs ($)</th>
<th>Total Annual Program Costs ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>2,689</td>
<td>572</td>
<td>$1,304,986</td>
<td>$532,379</td>
<td>$299,567</td>
<td>$831,946</td>
</tr>
<tr>
<td>2013</td>
<td>3,213</td>
<td>1,256</td>
<td>$2,867,143</td>
<td>$636,960</td>
<td>$278,355</td>
<td>$915,315</td>
</tr>
<tr>
<td>2014</td>
<td>3,778</td>
<td>2,059</td>
<td>$4,701,191</td>
<td>$748,094</td>
<td>$245,467</td>
<td>$993,561</td>
</tr>
<tr>
<td>2015</td>
<td>4,094</td>
<td>2,930</td>
<td>$6,687,314</td>
<td>$810,274</td>
<td>$187,753</td>
<td>$998,027</td>
</tr>
<tr>
<td>2016</td>
<td>4,419</td>
<td>3,870</td>
<td>$8,833,173</td>
<td>$875,277</td>
<td>$127,621</td>
<td>$1,002,898</td>
</tr>
</tbody>
</table>

### Residential HVAC Program

**Program Description**

The Residential HVAC Program being recommended by Frontier differs from the 2010 Residential HVAC program only in terms of participation and budget. The Residential HVAC Program offers equipment rebates to its members that install energy efficient HVAC equipment. Eligible equipment includes:

- AC with Gas Furnace
- Air-to-Air Heat Pumps with electric backup
- Dual-Fuel heat pumps
- Ground-Source or Water-Source Heat Pumps

The amount of the rebate varies according to which type of system is installed. The rebate only applies to replacement equipment, and both indoor and outdoor units must be replaced on the same installation date to be eligible for rebates. The replacement of those systems must include the outside condensing unit, indoor evaporator coil, fan section, and heating system (except those with a gas furnace). No partial replacement systems are eligible for rebates.

**Program Overview**

**Incentive Structure**

Differing incentive amounts are provided through direct rebates to residential customers depending on equipment type. Frontier analyzed the 2010 program year incentives and will not recommend any changes. Those incentive levels are as follows:
Table 15. Incentive Schedule for Residential HVAC Program

<table>
<thead>
<tr>
<th>Equipment</th>
<th>Incentive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central A/C with Gas Furnace</td>
<td>$300 - $400/unit</td>
</tr>
<tr>
<td>Air Source Heat Pump with Electric Backup</td>
<td>$400 - $500/unit</td>
</tr>
<tr>
<td>Dual-Fuel Heat Pump</td>
<td>$400 - $500/unit</td>
</tr>
<tr>
<td>Ground/Water-Source Heat Pump</td>
<td>$1,000/unit</td>
</tr>
</tbody>
</table>

Cost-Effectiveness Results
Table 16 displays the results of the Program Administrator Cost Test using both PEC’s avoided costs and the PUC’s avoided costs, respectively.

Table 16. Cost-Effectiveness of Residential HVAC Program

<table>
<thead>
<tr>
<th>Benefit/Cost Ratio</th>
<th>Net Benefits ($000s)</th>
<th>Total Benefits ($000s)</th>
<th>Total Costs ($000s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Using PEC’s Avoided Costs</td>
<td>5.20</td>
<td>$23,494.00</td>
<td>$29,092.71</td>
</tr>
<tr>
<td>Using PUC’s Avoided Costs</td>
<td>5.62</td>
<td>$25,871.84</td>
<td>$31,470.56</td>
</tr>
</tbody>
</table>

Program Details
Table 17 outlines the forecasted levels of annual participation, cumulative demand and energy savings values, and budget breakdown of the Residential HVAC Program.

Table 17. Program Details of Residential HVAC Program

<table>
<thead>
<tr>
<th>Year</th>
<th>Annual Participants</th>
<th>Cumulative kWh Reduction in Peak Load</th>
<th>Cumulative kWh Energy Savings</th>
<th>Annual Rebate Costs ($)</th>
<th>Annual Admin Costs ($)</th>
<th>Total Annual Program Costs ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>3,286</td>
<td>1,614</td>
<td>5,764,635</td>
<td>$1,071,700</td>
<td>$124,820</td>
<td>$1,196,520</td>
</tr>
<tr>
<td>2013</td>
<td>3,543</td>
<td>3,355</td>
<td>11,980,484</td>
<td>$1,155,425</td>
<td>$137,189</td>
<td>$1,292,614</td>
</tr>
<tr>
<td>2014</td>
<td>3,371</td>
<td>5,192</td>
<td>18,541,783</td>
<td>$1,219,875</td>
<td>$149,034</td>
<td>$1,368,909</td>
</tr>
<tr>
<td>2015</td>
<td>3,358</td>
<td>6,842</td>
<td>24,434,189</td>
<td>$1,095,675</td>
<td>$149,755</td>
<td>$1,245,430</td>
</tr>
<tr>
<td>2016</td>
<td>2,896</td>
<td>8,264</td>
<td>29,515,073</td>
<td>$944,075</td>
<td>$150,410</td>
<td>$1,094,485</td>
</tr>
</tbody>
</table>

Commercial Programs
The Commercial Program Portfolio is composed of the following programs:

- Benchmarking Schools and Cities Program (BSCP)
- Comprehensive Commercial Program (CCP)
- Cooling and Motors
- Load Management

The annual program budget for each commercial program is outlined in the table below.

Table 18. Annual Budget Breakdown of Commercial Programs

<table>
<thead>
<tr>
<th>Year</th>
<th>Benchmarking: Schools and Cities</th>
<th>Comprehensive Commercial</th>
<th>Cooling and Motors</th>
<th>Load Management Program</th>
<th>Total Commercial Portfolio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>$75,285</td>
<td>$396,501</td>
<td>$314,431</td>
<td>$115,000</td>
<td>$1,199,217</td>
</tr>
<tr>
<td>2013</td>
<td>$167,122</td>
<td>$467,512</td>
<td>$350,834</td>
<td>$100,000</td>
<td>$1,285,468</td>
</tr>
<tr>
<td>2014</td>
<td>$354,466</td>
<td>$508,535</td>
<td>$386,694</td>
<td>$100,000</td>
<td>$1,349,695</td>
</tr>
<tr>
<td>2015</td>
<td>$322,255</td>
<td>$322,255</td>
<td>$394,370</td>
<td>$100,000</td>
<td>$1,338,826</td>
</tr>
<tr>
<td>2016</td>
<td>$309,114</td>
<td>$414,880</td>
<td>$402,069</td>
<td>$100,000</td>
<td>$1,326,063</td>
</tr>
</tbody>
</table>
facility energy efficiency. Program participants also receive direct cash incentives for completed energy efficiency projects.

Other program services may include: the benchmarking of current energy use, creation of an energy master plan, identification and evaluation of opportunities for energy efficiency measures, and communications support.

The BSCP works with program participants to determine the most appropriate set of services to offer in order to address both immediate and longer-term needs.

The program does not require specific technologies or end uses, but instead provides a framework through which the Partner can receive incentives for implementing and installing a wide range of measures at their sites.

Program Overview

Incentive Structure

Incentives are provided through direct rebates to commercial customers for completed projects based on demand reduction as determined by the Texas Deemed Savings. The incentives for eligible energy efficiency measures are $150 per peak kW reduced.

Cost-Effectiveness Results

Table 19 displays the results of the Program Administrator Cost Test using both PEC’s avoided costs and the PUC’s avoided costs, respectively.

<table>
<thead>
<tr>
<th>Benefit/Cost Ratio</th>
<th>Program Administrator Cost Test-Using PEC’s Avoided Costs</th>
<th>Program Administrator Cost Test-Using PUC’s Avoided Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.99</td>
<td>5.56</td>
<td></td>
</tr>
<tr>
<td>Net Benefits ($000s)</td>
<td>6,285.42</td>
<td>7,178.17</td>
</tr>
<tr>
<td>Total Benefits ($000s)</td>
<td>7,860.44</td>
<td>8,753.19</td>
</tr>
<tr>
<td>Total Costs ($000s)</td>
<td>1,575.02</td>
<td>1,575.02</td>
</tr>
</tbody>
</table>

Program Details

Table 20 outlines the forecasted levels of annual participation, cumulative demand and energy savings values, and budget breakdown of the BSCP.

<table>
<thead>
<tr>
<th>Year</th>
<th>Annual Participants</th>
<th>Cumulative kW Reduction in Peak Load</th>
<th>Cumulative kWh Energy Savings</th>
<th>Annual Rebate Costs ($)</th>
<th>Annual Admin Costs ($)</th>
<th>Total Annual Program Costs ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>200</td>
<td>603</td>
<td>2,712,146</td>
<td>$260,000</td>
<td>$115,285</td>
<td>$375,285</td>
</tr>
<tr>
<td>2013</td>
<td>200</td>
<td>1,205</td>
<td>5,424,292</td>
<td>$260,000</td>
<td>$107,122</td>
<td>$367,122</td>
</tr>
<tr>
<td>2014</td>
<td>200</td>
<td>1,808</td>
<td>8,136,439</td>
<td>$260,000</td>
<td>$94,466</td>
<td>$354,466</td>
</tr>
<tr>
<td>2015</td>
<td>200</td>
<td>2,411</td>
<td>10,848,585</td>
<td>$260,000</td>
<td>$72,255</td>
<td>$332,255</td>
</tr>
<tr>
<td>2016</td>
<td>200</td>
<td>3,014</td>
<td>13,560,731</td>
<td>$260,000</td>
<td>$49,114</td>
<td>$309,114</td>
</tr>
</tbody>
</table>

Comprehensive Commercial Program (CCP)

Program Description

The Comprehensive Commercial Program (CCP) is a market transformation program offered to select commercial electric distribution customers of PEC. Frontier recommends that PEC utilize an implementer, chosen through a request for proposal (RFP) process, to provide key services of the CCP.

The CCP seeks to accomplish the following objectives:

- Encourage delivery of energy efficiency products and services to commercial customers
- Transform the commercial market over time by addressing specific barriers that hinder adoption of energy efficient technologies and practices
- Provide a suite of educational and supporting services to facilitate the implementation of energy efficiency projects
- Create a simple and streamlined program process to stimulate strong participation from the commercial market

The program implementer will help senior managers and facility supervisors operate their buildings more efficiently by understanding the technical and financial benefits of investing in energy efficiency and developing a plan to make energy efficiency improvements.

Commercial customers enrolling in the CCP receive technical and energy management assistance to help them make decisions about cost effective investments in facility energy efficiency. Commercial customers also receive direct cash incentives for completed energy efficiency projects.

Other program services may include the identification and evaluation of opportunities for energy efficiency measures and communications support. The implementer would work with each customer to determine the most appropriate set of services to offer in order to address both immediate and longer-term needs. The CCP

---

For the purposes of this BSCP, participants refer to individual buildings or projects.
does not require specific technologies or end uses, but instead provides a framework through which the
customer can receive incentives for implementing and installing a wide range of measures at their site.

**Program Overview**

**Incentive Structure**

Incentives are provided through direct rebates to commercial customers for completed projects based on
demand reduction of installed measures. The incentives for eligible energy efficiency measures are $150 per
peak kW reduced.

**Cost-Effectiveness Results**

Table 21 displays the results of the Program Administrator Cost Test using both PEC's avoided costs and the
PUC's avoided costs, respectively.

<table>
<thead>
<tr>
<th>Benefit/Cost Ratio</th>
<th>Net Benefits ($000s)</th>
<th>Total Benefits ($000s)</th>
<th>Total Costs ($000s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>PEC's Avoided Costs</td>
<td>8,482.82</td>
<td>10,630.40</td>
<td>2,147.58</td>
</tr>
<tr>
<td>PUC's Avoided Costs</td>
<td>9,875.41</td>
<td>12,022.99</td>
<td>2,147.58</td>
</tr>
</tbody>
</table>

**Program Details**

Table 22 outlines the forecasted levels of annual participation, cumulative demand and energy savings values,
and budget breakdown of the CCP.

<table>
<thead>
<tr>
<th>Annual Participants</th>
<th>Cumulative kWs Reduction in Peak Load</th>
<th>Cumulative kWh Energy Savings</th>
<th>Annual Rebate Costs ($K)</th>
<th>Annual Admin Costs ($)</th>
<th>Total Annual Program Costs ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>10</td>
<td>683</td>
<td>2,542,583</td>
<td>$272,229</td>
<td>$122,272</td>
</tr>
<tr>
<td>2013</td>
<td>13</td>
<td>1,571</td>
<td>7,847,941</td>
<td>$353,898</td>
<td>$113,614</td>
</tr>
<tr>
<td>2014</td>
<td>15</td>
<td>2,596</td>
<td>10,630,40</td>
<td>$408,344</td>
<td>$100,191</td>
</tr>
<tr>
<td>2015</td>
<td>16</td>
<td>3,689</td>
<td>13,729,948</td>
<td>$435,567</td>
<td>$76,634</td>
</tr>
<tr>
<td>2016</td>
<td>17</td>
<td>4,850</td>
<td>18,052,339</td>
<td>$462,790</td>
<td>$52,090</td>
</tr>
</tbody>
</table>

**Cooling and Motors Program**

**Program Description**

The Commercial Cooling and Motors program provides prescriptive rebates for retrofit cooling system upgrades,
installation of energy efficient cooling systems in new construction, purchase and installation of NEMA premium
efficiency motors, and for the installation of energy-saving variable speed drives on motors operating under
fluctuating loads in various drive applications. In addition, the thermal energy storage (TES) component of the
program proposes prescriptive rebates to PEC customers who install a TES system in an eligible facility. PEC's
program targets cool storage technologies, and the company will accept applications for systems in new or
existing facilities. The TES system may use ice, chilled water, or phase change technology. Rebates will be
based on the expected magnitude and duration of load shifted; they are irrespective of the technology used.

Through this program, PEC seeks to achieve energy and peak demand savings by providing incentives to
commercial customers who purchase and install energy efficient refrigerated air systems, NEMA premium
efficiency motors, variable speed drives, and/or TES systems.

**Incentive Structure**

Frontier foresees offering prescriptive rebates for NEMA Premium Motors according to the schedule provided in
Table 23.

<table>
<thead>
<tr>
<th>Horsepower</th>
<th>Incentive per Motor</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$7</td>
</tr>
<tr>
<td>1.5</td>
<td>$9</td>
</tr>
<tr>
<td>2</td>
<td>$11</td>
</tr>
<tr>
<td>3</td>
<td>$16</td>
</tr>
<tr>
<td>5</td>
<td>$20</td>
</tr>
<tr>
<td>7.5</td>
<td>$35</td>
</tr>
<tr>
<td>10</td>
<td>$45</td>
</tr>
<tr>
<td>15</td>
<td>$60</td>
</tr>
<tr>
<td>20</td>
<td>$75</td>
</tr>
<tr>
<td>25</td>
<td>$80</td>
</tr>
<tr>
<td>30</td>
<td>$90</td>
</tr>
<tr>
<td>40</td>
<td>$100</td>
</tr>
<tr>
<td>50</td>
<td>$125</td>
</tr>
<tr>
<td>60</td>
<td>$150</td>
</tr>
<tr>
<td>75</td>
<td>$175</td>
</tr>
<tr>
<td>100</td>
<td>$250</td>
</tr>
<tr>
<td>125</td>
<td>$275</td>
</tr>
<tr>
<td>150</td>
<td>$325</td>
</tr>
<tr>
<td>200</td>
<td>$450</td>
</tr>
</tbody>
</table>
Frontier foresees offering prescriptive rebates for Variable Speed Drives (VSD) according to the schedule provided in Table 24.

Table 24. Incentive Schedule for Variable Speed Drives (VSD)

<table>
<thead>
<tr>
<th>Horsepower</th>
<th>Incentive per VSD</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.5</td>
<td>$45</td>
</tr>
<tr>
<td>2</td>
<td>$60</td>
</tr>
<tr>
<td>3</td>
<td>$90</td>
</tr>
<tr>
<td>5</td>
<td>$150</td>
</tr>
<tr>
<td>7.5</td>
<td>$225</td>
</tr>
<tr>
<td>10</td>
<td>$300</td>
</tr>
<tr>
<td>15</td>
<td>$450</td>
</tr>
<tr>
<td>20</td>
<td>$600</td>
</tr>
<tr>
<td>25</td>
<td>$750</td>
</tr>
<tr>
<td>30</td>
<td>$900</td>
</tr>
<tr>
<td>40</td>
<td>$1,250</td>
</tr>
<tr>
<td>50</td>
<td>$1,400</td>
</tr>
<tr>
<td>60</td>
<td>$1,800</td>
</tr>
<tr>
<td>75</td>
<td>$2,250</td>
</tr>
<tr>
<td>100</td>
<td>$3,000</td>
</tr>
<tr>
<td>125</td>
<td>$3,750</td>
</tr>
<tr>
<td>150</td>
<td>$4,500</td>
</tr>
<tr>
<td>200</td>
<td>$6,000</td>
</tr>
</tbody>
</table>

Frontier foresees offering prescriptive rebates for qualifying air conditioning systems according to the schedule provided in Table 25.

Table 25. Incentive Schedule for Qualifying Air Conditioning Systems

<table>
<thead>
<tr>
<th>Equipment Type</th>
<th>Size Category</th>
<th>Minimum Equipment Efficiency</th>
<th>Incentive (per ton)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unitary and Split Air Conditioning System</td>
<td>&lt;5.4 tons</td>
<td>14 SEER</td>
<td>$15</td>
</tr>
<tr>
<td></td>
<td>5.4 – 11.25 tons</td>
<td>11.5 SEER</td>
<td>$15</td>
</tr>
<tr>
<td></td>
<td>11.25 tons – 20 tons</td>
<td>11.5 SEER</td>
<td>$15</td>
</tr>
<tr>
<td></td>
<td>20 tons – 63 tons</td>
<td>10.5 SEER</td>
<td>$15</td>
</tr>
<tr>
<td></td>
<td>&gt;63 tons</td>
<td>9.7 SEER</td>
<td>$15</td>
</tr>
<tr>
<td>Air-Cooled Chiller</td>
<td>&lt;150 tons</td>
<td>1.04 IPLV</td>
<td>$30</td>
</tr>
<tr>
<td>Water-Cooled Chillers</td>
<td>150 tons – 300 tons</td>
<td>0.54 IPLV</td>
<td>$20</td>
</tr>
<tr>
<td>PTAC/PHSP</td>
<td>7 – 15 kBuah</td>
<td>9.5 EER</td>
<td>$30</td>
</tr>
<tr>
<td></td>
<td>&gt;15 kBuah</td>
<td>8.6 EER</td>
<td>$30</td>
</tr>
</tbody>
</table>

Cost-Effectiveness Results
Table 26 displays the results of the Program Administrator Cost Test using both PEC’s avoided costs and the PUC’s avoided costs, respectively.

Table 26. Cost-Effectiveness Results of Cooling and Motors Program

<table>
<thead>
<tr>
<th>Benefit/Cost Ratio</th>
<th>Program Administrator Cost Test - Using PEC’s Avoided Costs</th>
<th>Program Administrator Cost Test - Using PUC’s Avoided Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Program Administrator Cost Test - Using PEC’s Avoided Costs</td>
<td>Program Administrator Cost Test - Using PUC’s Avoided Costs</td>
</tr>
<tr>
<td>Benefit/Cost Ratio</td>
<td>2.41</td>
<td>3.40</td>
</tr>
<tr>
<td>Net Benefits ($000s)</td>
<td>2,327.37</td>
<td>3,975.44</td>
</tr>
<tr>
<td>Total Benefits ($000s)</td>
<td>3,983.13</td>
<td>5,631.19</td>
</tr>
<tr>
<td>Total Costs ($000s)</td>
<td>1,655.76</td>
<td>1,655.76</td>
</tr>
</tbody>
</table>

Program Details
Table 27 outlines the forecasted levels of annual participation, cumulative demand and energy savings values, and budget breakdown of the Cooling and Motors Program.
Table 27. Cooling and Motors Program Details

<table>
<thead>
<tr>
<th></th>
<th>Annual Participants</th>
<th>Cumulative kW Reduction in Peak Load</th>
<th>Cumulative kWh Energy Savings</th>
<th>Annual Rebate Costs ($)</th>
<th>Annual Admin Costs ($)</th>
<th>Total Annual Program Costs ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>281</td>
<td>657</td>
<td>894,185</td>
<td>$220,107</td>
<td>$94,324</td>
<td>$314,431</td>
</tr>
<tr>
<td>2013</td>
<td>336</td>
<td>1,443</td>
<td>1,963,387</td>
<td>$263,189</td>
<td>$87,645</td>
<td>$350,834</td>
</tr>
<tr>
<td>2014</td>
<td>395</td>
<td>2,367</td>
<td>3,220,337</td>
<td>$309,404</td>
<td>$77,290</td>
<td>$386,694</td>
</tr>
<tr>
<td>2015</td>
<td>428</td>
<td>3,368</td>
<td>4,582,298</td>
<td>$35,232</td>
<td>$59,118</td>
<td>$394,370</td>
</tr>
<tr>
<td>2016</td>
<td>462</td>
<td>4,449</td>
<td>6,052,452</td>
<td>$61,885</td>
<td>$40,184</td>
<td>$402,069</td>
</tr>
</tbody>
</table>

Commercial Load Management

Program Description

The Commercial Load Management program (LM) targets commercial customers with a specified level of peak electric demand (level to be determined based on PEC’s customer base). Incentives are paid to project sponsors to reduce peak electric load at critical times, as directed by PEC.

Program Objectives include:

- Reduce summer and/or winter peak demand in PEC’s service territory in a cost-effective manner
- Encourage private sector delivery of load management services

Program Overview

Incentive Structure

Standard incentive prices per kW will be paid to the project sponsor each year of participation. The cost-effectiveness calculation assumed project sponsors would be paid an average of $36/kW. Exact incentives will need to be established specifically for PEC’s service territory.

Cost-Effectiveness Results

Table 28 displays the results of the Program Administrator Cost Test using both PEC’s avoided costs and the PUC’s avoided costs, respectively.

Table 28. Cost-Effectiveness Results of LM

<table>
<thead>
<tr>
<th></th>
<th>Program Administrator Cost Test Using PEC’s Avoided Costs</th>
<th>Program Administrator Cost Test Using PUC’s Avoided Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefit/Cost Ratio</td>
<td>1.12</td>
<td>2.05</td>
</tr>
<tr>
<td>Net Benefits ($000s)</td>
<td>53.59</td>
<td>489.93</td>
</tr>
<tr>
<td>Total Benefits ($000s)</td>
<td>519.34</td>
<td>955.69</td>
</tr>
<tr>
<td>Total Costs ($000s)</td>
<td>468.76</td>
<td>468.76</td>
</tr>
</tbody>
</table>
Appendix A: Cost-effectiveness Analysis of PEC’s 2010 Residential HVAC and Commercial Lighting Programs

These values are based on data provided to Frontier by PEC; a full evaluation of the program savings was not conducted. Frontier calculated the cost-effectiveness using the exact spending and savings values provided.

2010 Residential HVAC Program

Table 30 displays the results of the Program Administrator Cost Test for the 2010 Residential HVAC Program using both PEC’s avoided costs and the PUC’s avoided costs, respectively.

<table>
<thead>
<tr>
<th></th>
<th>Program Administrator Cost Test- Using PEC’s Avoided Costs</th>
<th>Program Administrator Cost Test- Using PUC’s Avoided Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefit/Cost Ratio</td>
<td>7.07</td>
<td>7.43</td>
</tr>
<tr>
<td>Net Benefits ($000s)</td>
<td>9,428.21</td>
<td>9,985.36</td>
</tr>
<tr>
<td>Total Benefits ($000s)</td>
<td>10,981.83</td>
<td>11,538.98</td>
</tr>
<tr>
<td>Total Costs ($000s)</td>
<td>1,553.62</td>
<td>1,553.62</td>
</tr>
</tbody>
</table>

Table 31 outlines the levels of annual participation, cumulative demand and energy savings values, and budget breakdown of the 2010 Residential HVAC Program.

<table>
<thead>
<tr>
<th></th>
<th>Annual Participants</th>
<th>Annual kW Reduction in Peak Load</th>
<th>Annual kWh Energy Savings</th>
<th>Annual Rebate Costs ($)</th>
<th>Annual Admin Costs ($)</th>
<th>Total Annual Program Costs ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>3,848</td>
<td>4,009</td>
<td>8,779,710</td>
<td>1,364,300</td>
<td>189,319</td>
<td>1,553,619</td>
</tr>
</tbody>
</table>

2010 Commercial Lighting Program

Table 32 displays the results of the Program Administrator Cost Test for the 2010 Commercial Lighting Program using both PEC’s avoided costs and the PUC’s avoided costs, respectively.

<table>
<thead>
<tr>
<th></th>
<th>Program Administrator Cost Test- Using PEC’s Avoided Costs</th>
<th>Program Administrator Cost Test- Using PUC’s Avoided Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefit/Cost Ratio</td>
<td>8.82</td>
<td>9.76</td>
</tr>
<tr>
<td>Net Benefits ($000s)</td>
<td>1,049.06</td>
<td>1,175.99</td>
</tr>
<tr>
<td>Total Benefits ($000s)</td>
<td>1,183.23</td>
<td>1,310.17</td>
</tr>
<tr>
<td>Total Costs ($000s)</td>
<td>134.18</td>
<td>134.18</td>
</tr>
</tbody>
</table>

Table 33 outlines the levels of annual participation, cumulative demand and energy savings values, and budget breakdown of the 2010 Commercial Lighting Program.

<table>
<thead>
<tr>
<th></th>
<th>Annual Participants</th>
<th>Annual kW Reduction in Peak Load</th>
<th>Annual kWh Energy Savings</th>
<th>Annual Rebate Costs ($)</th>
<th>Annual Admin Costs ($)</th>
<th>Total Annual Program Costs ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>6</td>
<td>335</td>
<td>1,657,582</td>
<td>87,293</td>
<td>46,884</td>
<td>134,177</td>
</tr>
</tbody>
</table>
Appendix B: Guiding Goal Scenario
Details

Recommended Goal Scenario:

- Assumes goal is to meet 20% of growth in summer peak demand each year
- Monthly customer impact ranges from approximately $1.02/month to $1.19/month

Projected energy savings, demand reduction figures and estimated monthly impact on customer bills under the Guiding Goal Scenario can be found in Table 34.

Table 34. Guiding Goal Based on Annual Growth in Demand

<table>
<thead>
<tr>
<th>Year</th>
<th>Projected Demand Reduction (MW)</th>
<th>Projected Energy Savings (MWh)</th>
<th>Estimated Cost</th>
<th>Estimated Monthly Impact on Residential Customers</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>4.5</td>
<td>10,500</td>
<td>$2,077,030</td>
<td>$0.56</td>
</tr>
<tr>
<td>2012</td>
<td>8.41</td>
<td>14,734</td>
<td>$3,881,658</td>
<td>$1.02</td>
</tr>
<tr>
<td>2013</td>
<td>9.38</td>
<td>16,429</td>
<td>$4,328,157</td>
<td>$1.11</td>
</tr>
<tr>
<td>2014</td>
<td>10.34</td>
<td>18,110</td>
<td>$4,770,986</td>
<td>$1.19</td>
</tr>
<tr>
<td>2015</td>
<td>10.54</td>
<td>18,469</td>
<td>$4,865,645</td>
<td>$1.18</td>
</tr>
<tr>
<td>2016</td>
<td>10.75</td>
<td>18,831</td>
<td>$4,969,968</td>
<td>$1.17</td>
</tr>
<tr>
<td>Total</td>
<td>53.92</td>
<td>97,073</td>
<td>$24,884,444</td>
<td></td>
</tr>
</tbody>
</table>

3 Due to negative load growth between 2010 and 2011, Frontier assumed PEC would achieve demand reductions and energy savings similar to those achieved through its 2010 programs.

Appendix C: Rejected Programs

Residential Photovoltaic Pilot Program

Program Description

The Residential PV Pilot Program is designed to help customers implement photovoltaic (PV) technology and solar hot water in their home by offering financial incentives that can offset customers' initial investment. By implementing PV and solar hot water technologies, customers would be helping all of PEC's members to reduce the need to generate additional power and lower long-term investment costs for new electric facilities while also benefiting the environment.

Program Overview

Incentive Structure

Incentives are provided through direct rebates to residential customers for completed projects at a rate of: $2.00/watt, with a maximum rebate of $87,500 per project.

Cost-Effectiveness Results

Table 35 displays the results of the Program Administrator Cost Test using both PEC's avoided costs and the PUC's avoided costs, respectively.

Please note that the benefit cost ratio for the Residential PV Pilot Program is less than 1.0 using PEC's avoided costs, making the program not cost-effective in that scenario.

Table 35. Cost-Effectiveness Results of Residential PV Pilot Program

<table>
<thead>
<tr>
<th></th>
<th>Program Administrator Cost Test-Using PEC's Avoided Costs</th>
<th>Program Administrator Cost Test-Using PUC's Avoided Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefit/Cost Ratio</td>
<td>0.79</td>
<td>0.89</td>
</tr>
<tr>
<td>Net Benefits ($000s)</td>
<td>-186.85</td>
<td>-100.16</td>
</tr>
<tr>
<td>Total Benefits ($000s)</td>
<td>798.38</td>
<td>796.07</td>
</tr>
<tr>
<td>Total Costs ($000s)</td>
<td>896.23</td>
<td>896.23</td>
</tr>
</tbody>
</table>

Program Details

Table 36 outlines the forecasted levels of annual participation, cumulative demand and energy savings values, and budget breakdown used in the analysis of the Residential PV Pilot Program.
Table 36. Residential PV Pilot Program Details

<table>
<thead>
<tr>
<th>Year</th>
<th>Annual Participants</th>
<th>Cumulative kW Reduction in Peak Load</th>
<th>Cumulative kWh Energy Savings</th>
<th>Annual Rebate Costs ($)</th>
<th>Annual Admin Costs ($)</th>
<th>Total Annual Program Costs ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>14</td>
<td>41</td>
<td>73,521</td>
<td>$128,800</td>
<td>$40,757</td>
<td>$169,557</td>
</tr>
<tr>
<td>2013</td>
<td>16</td>
<td>88</td>
<td>157,545</td>
<td>$147,200</td>
<td>$37,871</td>
<td>$185,071</td>
</tr>
<tr>
<td>2014</td>
<td>19</td>
<td>144</td>
<td>257,323</td>
<td>$174,800</td>
<td>$33,397</td>
<td>$208,197</td>
</tr>
<tr>
<td>2015</td>
<td>21</td>
<td>205</td>
<td>367,604</td>
<td>$193,200</td>
<td>$25,545</td>
<td>$218,745</td>
</tr>
<tr>
<td>2016</td>
<td>22</td>
<td>270</td>
<td>483,137</td>
<td>$202,400</td>
<td>$17,467</td>
<td>$219,767</td>
</tr>
</tbody>
</table>

Commercial PV Pilot Program

Program Description

The Commercial PV Pilot Program is designed to help commercial customers implement PV technology and solar hot water in their business by offering financial incentives that can offset customers' initial investment. By implementing PV and solar hot water technologies, participants would be helping all PEC members to reduce the need to generate additional power; lower long-term investment costs for new electric facilities while also benefitting the environment.

Program Overview

Incentive Structure

Incentives are provided through direct rebates to commercial customers for completed projects at a rate of $1.75/watt, with a maximum rebate of $87,500 per project.

Cost-Effectiveness Results

Table 37 displays the results of the Program Administrator Cost Test, benefits and costs of the Commercial PV Pilot Program based on PEC's avoided costs as outlined by its contract with the LCRA and the transmission charges imposed by the PUCT to reimburse transmission providers in the ERCOT power region.

Please note that the benefit cost ratio for the Commercial PV Pilot Program is less than 1.0 using both PEC's and the PUC's avoided costs, making the program not cost-effective according to the Program Administrator Cost Test.

Table 37. Cost-Effectiveness of Commercial PV Pilot Program

<table>
<thead>
<tr>
<th>Benefit/Cost Ratio</th>
<th>Program Administrator Cost Test Using PEC’s Avoided Costs</th>
<th>Program Administrator Cost Test Using PUC’s Avoided Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0.87</td>
<td>0.97</td>
</tr>
<tr>
<td>Net Benefits ($000s)</td>
<td>-41.21</td>
<td>-7.97</td>
</tr>
<tr>
<td>Total Benefits ($000s)</td>
<td>268.07</td>
<td>301.30</td>
</tr>
<tr>
<td>Total Costs ($000s)</td>
<td>309.27</td>
<td>309.27</td>
</tr>
</tbody>
</table>
Subject: Revised Renewable Energy Goal

Submitted By: Luanne Coleman

Department: Committee - Energy

Background:

Fiscal Impact:

Based upon initial review of the proposed changes to the goal, the additional annual expenditures to maintain our current percentage renewable capacity as calculated under the current measurement of the existing goal are estimated to initially be $3MM - $5MM. In addition, it is estimated that consulting fees of $100K - $500K could be incurred to develop and incorporate a distributed renewable generation plan in a Resource Plan. An additional annual funding of $500K - $2MM associated with additional staffing requirements and administration costs is estimated with regards to the distributed renewable generation plan.

To develop a more complete Fiscal Impact Analysis, additional review and BOD clarification is required, regarding the following:

- When the BOD adopted this goal in 2008, the BOD Power Supply Committee established the measurement of the goal would be based upon PEC’s renewable generation capacity contracted for, compared to PEC’s ERCOT average 4CP which is a public number used for assessing transmission cost. The purpose for measuring the goal in this fashion was to allow for a means to compare to other utilities within ERCOT as well as to minimize demand impacts caused by extreme weather. The proposed change to “annual system peak demand” subjects the calculation to be impacted by demands set due to extreme weather to a much greater degree. Applying the system peak demand to 2011 data, our percentage renewable capacity changes from approximately 21% to approximately 18% (represents approximately 40MW). This change also makes it much more difficult to compare to other utilities.

- It is unclear as to the intent of the proposed provision requiring “The Cooperative will research and solicit member and stakeholder input to produce a distributed renewable generation plan and incorporate it into its Resource Plan no later than June 1, 2013.” PEC is currently pursuing a distributed generation pilot program as result of an RFP issued last year with a goal of offering alternatives that will minimize the costs for members desiring this option. Is the intent to incorporate our current efforts related to pursuing our distributed generation pilot program into the Resource Plan?

- PEC encourages renewable distributed generation for Members interested in interconnecting with the cooperative by allowing net metering for installations of 20 KW or less and paying the member avoided cost for any excess energy. It is unclear as to the intent of adding the provision that states we “will pay a price for distributed renewable generation that reflects its value”. Is this intended to change from our current practice of paying our avoided cost?

ATTACHMENTS:

- Revised Renewable Energy Goal 02202012 (PDF)
RESOLUTION 2012-5

Revised Renewable Energy Goal

BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE COOPERATIVE that the attached revised Renewable Energy Goal and corresponding estimated fiscal impact statement be posted for member comment for a period of 60 days with comments to be reviewed at the May Regular Board Meeting; and

BE IT FURTHER RESOLVED BY THE BOARD OF DIRECTORS OF THE COOPERATIVE that a member forum on Energy Efficiency and Renewable Energy be held within the same 60 day period; and

BE IT FURTHER RESOLVED BY THE BOARD OF DIRECTORS OF THE COOPERATIVE, that the Chief Executive Officer or his designee is authorized to take such actions as needed to implement this resolution.

RESULT: ADOPTED AS AMENDED [UNANIMOUS]
MOVER: Chris Perry, District 4 Director
SECONDER: Dr. Patrick Cox, District 7 Director
AYES: Cox, Landaker, Fischer, Perry, Scanlon, Boggs, Clement
Renewable Energy Goal
(Adopted October 20, 2008)
(Amended <Insert Date>)

WHEREAS, the Board of Directors of the Cooperative by resolution dated October 20, 2008 set a Renewable Energy Goal for the Cooperative; and

WHEREAS, the Energy Committee has recommended the following amendments to the Renewable Energy Goal which would clarify the goal and serve well the members of PEC:

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE COOPERATIVE, that the Renewable Energy Goal of the Cooperative be amended as follows:

BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE COOPERATIVE, that the Cooperative establishes a goal to satisfy thirty (30) percent (%) of its annual system peak demand from renewable generation resources, including distributed renewable generation, by the year 2020 consistent with our commitment to bringing value to the membership and in support of our environmental stewardship.

The Cooperative will pay a price for distributed renewable generation that reflects its value and offer programs with an emphasis on the implementation of programs to encourage cost effective distributed renewable generation. Programs will focus on maximizing value to the membership by informing all members of opportunities while not imposing unreasonable costs on members not participating in the programs.

In 2011, PEC satisfied approximately 21% of its electric generation capacity requirements from renewable generation resources, which included 149 distributed generation interconnects. PEC will annually review the goal, overall performance, and standards for evaluation in order to satisfy generation capacity requirements through cost effective programs for the benefit of PEC and its members. The Cooperative will research and solicit member and stakeholder input to produce a distributed renewable generation plan and incorporate it into its Resource Plan no later than June 1, 2013.

BE IT FURTHER RESOLVED, that the Chief Executive Officer or his designee is authorized to take such actions as needed to implement this resolution.
About Jim Lazar

Jim Lazar is a RAP Senior Advisor, based in Olympia, WA

- Economist with 34 years experience in utility resource planning, rate development, and financial analysis
- Expert witness in more than 100 rate proceedings on revenue requirement, cost allocation, rate design, and energy efficiency.
  - Participated in development of inclining block rate designs in Washington, Oregon, Idaho, Montana, California, Arizona, and New Mexico
- Assisted RAP in many US states, plus Brazil, China, India, Indonesia, Israel, Mauritius, Mozambique, Namibia, Philippines
- Co-author of RAP publications on Energy Efficiency, Emission Costs, Revenue Regulation and Decoupling, and other topics.
Review of PEC Resolutions on Energy Efficiency and Renewables

• Energy Efficiency:
  • Current Goal (9/15/2008):
    • 20% of Energy Requirements
  • Proposed Goal
    • 15% of load growth for 2013/14
    • 20% of load growth for 2015+

• Renewable Energy
  • Current Goal: 30% of “electricity” by 2020
  • Proposed Goal: 30% of peak demand by 2020

Energy Efficiency Resolution Proposed: 20% of Load Growth

• If the original 2008 intent was 20% of total electricity (kWh) by 2020, that was on the same order as the very best in the U.S. ~1.7% per year

• Compared with that, the proposed resolution is a huge reduction in the goal.
  • Load growth is about 2-3% per year; over 8 years, 20% of that would be about 0.5% per year, or about 4% by 2020.
Best Practices Goals for Energy Efficiency

- Rhode Island: 2.5% of total usage per year
- Massachusetts: 2.4% of total usage in 2012
- Minnesota: 1.5% of total usage per year
- Arizona: 20% of projected load by 2020
- Washington, Oregon, California, Vermont:
  - Achieving 1% - 1.5% per year for 5 - 30 years
  - Requires investment ~ 3% - 5% of total revenue
  - Results in lower bills for ~95% of consumers

Energy Efficiency Has Many Benefits

- Production Capacity
- Production Energy
- Avoided Emissions
- Transmission Capacity
- Distribution Capacity
- Line Loss Reduction
- Avoided Reserves
- Non-Energy Benefits
  - Water
  - Employment
  - Health

Evidence from the U.S., Europe, and other countries show that efficiency benefits are 3 – 5 times costs.
Example: Water-Related Benefits of Energy Efficiency

- **Water benefits from investment in measures that save water**
  - Showerheads and aerators
  - Dishwashers and clothes washers
  - Restaurant equipment
  - Even toilets reduce water pumping energy use

- **Water benefits at power plants**
  - Steam (coal and gas) power plants use very large amounts of water for cooling

Example: Employment Benefits of Energy Efficiency

Figure 1. Jobs per Million Dollars of Revenue by Key Sectors of the US Economy

Example: Commercial Lighting Retrofit

- Benefits of commercial lighting retrofit
  - Lower energy usage
  - Lower peak demand
  - Reduced maintenance costs
  - Improved lighting quality
    - Lower eyestrain in office environment
    - Improved appearance in retail environment
  - 1% productivity gain dwarfs energy benefits.
  - BUT: with typical leasing, neither landlord nor tenant is assured of getting the benefits over the life-cycle.

Example: Health Benefits of Residential Efficiency Retrofit


Health Benefit Studies on Retrofitted houses

- Results of the studies undertaken so far:
  - admissions to hospitals for respiratory conditions drop by 43%
  - days off school reduce by 23%
  - days off work drop 39%

Health benefits calculated to be 9 times the energy savings benefit.
Energy Efficiency Resolution
Bottom Line for PEC

• Frontier analysis looks only at PEC generation and transmission cost savings.
• The full picture includes distribution, emissions, and non-energy benefits such as employment, water, and health.
• The proposed resolution falls far short of the best practices in other states.

Renewable Energy Resolution
20% of Peak Demand by 2020

• Not clear exactly what is meant by this.
  • 1 kW of wind capacity may produce zero on-peak generation.
  • 1 kW of solar capacity is probably enough to serve 1 kW of mid-day load, but only until ~5 PM
  • PEC Peak demand in 2011 was a winter morning. Not much sun.

• PEC Peak Demand is about 1,400 MW.
  • If it means contracting for 280 MW of wind CAPACITY that operates 30% of the time, it would provide only 12% of electricity needs.
  • If it means contracting for 280 MW of solar CAPACITY that operates 35% of the time, it would provide only 14% of electricity needs.
Capacity Value of Wind
5% to 35% of Installed MW

Nearly All Renewable Standards Are Expressed as a % of Annual kWh

<table>
<thead>
<tr>
<th>Renewable Portfolio Standards</th>
<th>%</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arizona</td>
<td>15%</td>
<td>2025</td>
</tr>
<tr>
<td>California</td>
<td>33%</td>
<td>2020</td>
</tr>
<tr>
<td>Colorado (Coops)</td>
<td>10%</td>
<td>2020</td>
</tr>
<tr>
<td>Hawaii</td>
<td>40%</td>
<td>2030</td>
</tr>
<tr>
<td>Kansas</td>
<td>20% of Peak</td>
<td>2020</td>
</tr>
<tr>
<td>Montana</td>
<td>15%</td>
<td>2015</td>
</tr>
<tr>
<td>New Mexico (Coops)</td>
<td>10%</td>
<td>2020</td>
</tr>
<tr>
<td>Oregon</td>
<td>25%</td>
<td>2025</td>
</tr>
<tr>
<td>Texas</td>
<td>5,880 MW</td>
<td>2015</td>
</tr>
<tr>
<td>Washington</td>
<td>15%</td>
<td>2020</td>
</tr>
</tbody>
</table>

Generation Capacity Requires ~15% Reserves

- To meet the PEC peak demand of ~1,400 MW means that the utility must have available to it about 1,600 MW of capacity.
  - Things don’t always work when you need them.
  - Reserves must equal the largest single contingency, or about 15% of peak demand.
  - The proposed resolution does not take this into account. As a result, even if the renewables were as reliable during peak periods as other resources, they’d come up short of meeting the target.

If the Goal of an RPS is to Reduce GHG Emissions, it should be kWh

- CO2 emissions are primarily a function of energy produced.
  - Coal about 2X as much as natural gas
- 20% installed capacity of wind or solar would only displace 12% - 14% of energy usage.
- An RPS expressed on a capacity basis may not achieve an equivalent % reduction of CO2 emissions.
Recommendation

• If the goal is displacement of CO2 emissions, the RPS should be expressed on a kWh (energy) basis, not a kW (capacity) basis.
• If the goal is displacement of fossil generation capacity on-peak, the RPS should be expressed on the basis of expected reliable capacity on-peak from renewables compared with total capacity requirements.
• Numerator: what you’re buying
• Denominator: what you’re trying to avoid

About RAP

The Regulatory Assistance Project (RAP) is a global, non-profit team of experts that focuses on the long-term economic and environmental sustainability of the power and natural gas sectors. RAP has deep expertise in regulatory and market policies that:

- Promote economic efficiency
- Protect the environment
- Ensure system reliability
- Allocate system benefits fairly among all consumers

Learn more about RAP at www.raponline.org

Jim Lazar: jlazar@raponline.org
April 9, 2012

Agenda

- Project Description
- Explanation of Cost-Effectiveness
- Findings on Existing Programs
- Recommended Portfolio
  - Description of Programs
  - Cost-Effectiveness Results
- Q&A
About Frontier

• Frontier Associates is an Austin-based consulting firm specializing in the demand side of energy markets. Our services include:
  – Design, implementation, and evaluation of energy efficiency, demand response, smart grid, renewable energy, and water conservation programs
  – Utility cost of service, rate design, and pricing
  – Software products designed to enable utilities to better manage programs
  – Engineering services

Project Description

• Analysis of the 2010 programs
  – Residential HVAC Program
  – Commercial Lighting Program
  – Excludes the Home Audit Program
• Recommend a suite of potential future programs:
  – Benefit/cost analysis of the recommended portfolio/individual programs
  – Recommended program details
  – Recommended general implementation strategies
Explanation of Cost-Effectiveness

- Frontier utilized the Program Administrator Cost Test (PACT) to determine cost-effectiveness
- Compares efficiency program to the cost of providing energy

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy-related costs avoided by utility</td>
<td>Administrative costs</td>
</tr>
<tr>
<td>Capacity-related costs avoided by utility</td>
<td>Utility incentive costs</td>
</tr>
</tbody>
</table>

• Positive PACT = total costs to save energy are lower than the costs of the utility to provide it.

Benefit-Cost Analysis

- Our approach frames energy efficiency programs as an alternative to wholesale energy purchases.
- We have used the same approach adopted by the Public Utility Commission of Texas (PUC) for the utilities within its jurisdiction.
- The costs potentially avoided as a result of energy efficiency were estimated using both the avoided cost values set by the PUC and values reflecting the charges in PEC’s contract with the LCRA and ERCOT transmission charges to load-serving entities.
- You can examine the benefits and costs of energy efficiency programs from different perspectives and get different results.
Findings for 2010 Programs

2010 Programs
Cost-Effectiveness Results

• 2010 Residential HVAC Program: Ratio of benefits to program costs = 7.07/1
• 2010 Commercial Lighting Program: Ratio of benefits to program costs = 8.82/1
Energy Efficiency Program Portfolio Recommendations

To Develop Our Recommendations

- Identified programs that other utilities in the region had found successful
- Determined whether they might be suitable for PEC in light of the Cooperative's customer base, climate zone, and market characteristics
- Projected likely participation rates, based on success of other utility programs with analogous service territories
- Estimated likely program costs, impacts, and benefits, based on similar programs
- Conducted benefit-cost analysis
Portfolio Goal and Bill Impacts

• Portfolio Goal:
  – 2013-2014: 15% of annual future demand growth
  – 2015 and subsequent years: 20% of annual future demand growth

• Monthly bill impacts for a typical residential customer ranges from $1.02/month to $1.19/month

Forecasted Portfolio Results

<table>
<thead>
<tr>
<th></th>
<th>Annual Participants</th>
<th>Forecasted Incremental Annual kW Demand Reduction</th>
<th>Forecasted Annual Incremental kWh Conservation</th>
<th>Total Annual Budget Portfolio Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>6,625</td>
<td>6,937</td>
<td>13,432,486</td>
<td>$3,411,585</td>
</tr>
<tr>
<td>2013</td>
<td>7,489</td>
<td>10,177</td>
<td>15,123,128</td>
<td>$3,674,072</td>
</tr>
<tr>
<td>2014</td>
<td>8,338</td>
<td>13,337</td>
<td>16,481,194</td>
<td>$3,884,053</td>
</tr>
<tr>
<td>2015</td>
<td>8,335</td>
<td>16,060</td>
<td>16,402,009</td>
<td>$3,740,439</td>
</tr>
<tr>
<td>2016</td>
<td>8,303</td>
<td>18,746</td>
<td>16,191,034</td>
<td>$3,566,717</td>
</tr>
<tr>
<td>Total</td>
<td>39,090</td>
<td>65,257</td>
<td></td>
<td>$18,276,866</td>
</tr>
</tbody>
</table>
Recommended Portfolio Cost-Effectiveness Results

New Home Construction Program: 3.36
Home Energy Efficiency Program: 2.83
Residential HVAC: 5.62
Benchmarking Schools/Cities Program: 5.56
Comprehensive Commercial Program: 5.6
Cooling & Heating Program: 3.4
Load Management: 2.05
Total Portfolio: 3.97

Residential Programs
New Home Construction Program (NHCP)

**Motivation:** The best opportunity to improve the energy efficiency of homes is while they are being built.

**Program concept:** Technical assistance and targeted rebates for new homes that meet ENERGY STAR HERS target index.

**Measures:** HVAC, water heating, windows, insulation, building standards, etc.

**Implementation:** Educate builders and consumers, utilize ENERGY STAR Marketing Toolkit.

**Similar programs:** Austin Energy, Magic Valley Electric Cooperative, Entergy Texas, and Oncor Electric Delivery.

**Benefit cost ratio:** 3.36

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Home Energy Efficiency Program (HEEP)

**Motivation:** Members unaware of savings potential from envelope and lighting improvements.

**Program concept:** Unlike current Home Energy Audit Program, HEEP offers money saving recommendations and incentives for higher efficiency measures.

**Measures:** Insulation, duct sealing, infiltration, solar screens, windows.

**Implementation:** Audits (either in-house or third-party).

**Similar programs:** EPE New Mexico, OG&E Oklahoma (direct rebate); All Texas IOU’s offer Weatherization SOPs.

**Benefit cost ratio:** 2.83
Residential HVAC Program

**Motivation:** Heating/cooling makes up nearly 1/2 of home energy use

**Program concept:** Direct rebate for high-efficiency HVAC equipment

**Measures:** A/C systems with a gas furnace, AC with Gas Furnace, Air-to-Air Heat Pumps with electric backup, Dual-Fuel heat pumps, Ground-Source or Water-Source Heat Pumps

**Implementation:** Continuation of existing program structure with the addition of a new tracking database

**Similar programs:** EPE New Mexico, OG&E Oklahoma (direct rebate)

**Benefit cost ratio:** 5.62

---

Commercial Programs
**Benchmarking Schools and Cities Program (BSCP)**

**Motivation:** Many school districts and municipalities are unaware of the financial savings that can be achieved through efficiency upgrades.

**Program concept:** Cash and non-cash Incentives are paid for measures installed based on peak reductions.

**Measures:** Lighting, HVAC, chillers, roofing, windows, motors.

**Implementation:** Third-party implementer conducts outreach and audits. Recommendations made based on benchmarking.

**Similar programs:** TNMP, CenterPoint, EPE New Mexico, AEP (Central, North and SWEPCO).

**Benefit cost ratio:** 5.56

---

**Comprehensive Commercial Program**

**Motivation:** Help commercial customers address rising energy costs while reducing peak consumption.

**Program concept:** Provide cash and non-cash incentives for installed measures resulting in peak reduction.

**Measures:** Lighting, HVAC, chillers, roofing, windows, motors.

**Implementation:** Third-party implementer conducts outreach and audits.

**Similar programs:** AEP (Central, North and SWEPCO), Entergy.

**Benefit cost ratio:** 5.60
Cooling and Motors Program

**Motivation:** Provide direct rebates for both high-efficiency HVAC and motors without going through comprehensive audits

**Program concept:** Incentives are paid for measures installed based on equipment type

**Measures:** Highly efficient HVAC systems, NEMA premium efficiency motors, variable speed drive (VSD) motors

**Implementation:** PEC website will serve as primary source of info; PEC will also conduct outreach/workshops to potential participants

**Similar programs:** CenterPoint, Oncor, AEP (Central, North, SWEPCO), Entergy, EPE, TNMP

**Benefit cost ratio:** 3.40

Load Management Program

**Motivation:** Help commercial customers “Beat the Peak”

**Program concept:** Incentives are paid for measures installed based on peak reductions

**Measures:** Participants asked to respond to reduce peak consumption, as directed by PEC

**Implementation:** PEC conducts outreach to commercial customers consuming greater than a target kW during peak hours

**Similar programs:** CenterPoint, Oncor, AEP (Central, North, SWEPCO), Entergy, EPE, TNMP

**Benefit cost ratio:** 2.05
Questions?
The Clean Local Power Puzzle

John Farrell, Director, Energy Self-Reliant States and Communities program
jfarrell@ilsr.org

April 2, 2012 Presentation to the Pedernales Electric Coop

Energy Transformation

Yesterday

Centralized power

Tomorrow

Clean, local power
Good Sun

Solar Insolation (kWh/m²/day)
- 4.5 - 5.0
- 5.0 - 5.5
- 5.5 - 6.0

Good Wind
Renewable Energy Cost

Cost per kWh over project lifetime

Wind speed of 7 m/s; solar insolation 5.4 kWh/m²/day
Wind project installed at $2,000/kW; solar at $5,000/kW
Calculations include federal tax credits and depreciation

"The Cooperative will pay a price for distributed renewable generation that reflects its value"
The Clean Energy Puzzle

The Issue of Scale
Distributed Solar

Cost per kWh After Tax Incentives

- 100 kW Rooftop
- 500 kW
- 1 MW
- 1 MW Ground
- 5 MW
- 50 MW

Calculations by the CLEAN Coalition

Distributed Wind

Installed Cost per kW

- < 5 MW
- 5-20 MW
- 20-50 MW
- 50-100 MW
- 100-200 MW
- > 200 MW

2009 Wind Technologies Market Report
The Issue of Value

Renewable Energy Value

Cost per kWh over project lifetime

<table>
<thead>
<tr>
<th>Cost per kWh</th>
<th>Avoided Cost</th>
<th>Wind Power</th>
<th>Solar Power</th>
</tr>
</thead>
<tbody>
<tr>
<td>15¢</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12¢</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9¢</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6¢</td>
<td>6.4¢</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3¢</td>
<td></td>
<td>4.5¢</td>
<td></td>
</tr>
<tr>
<td>0¢</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Wind speed of 7 m/s; solar insolation 5.4 kWh/m²/day
Wind project installed at $2,000/kW; solar at $5,000/kW
Calculations include federal tax credits and depreciation
Renewable Energy Value

Palo Alto, CA, municipal utility

Value of Distributed Solar

- Local capacity value
- Avoided transmission access
- Environmental
- Avoided transmission losses
- Brown energy replacement

6 cents per kWh in addition to electricity

Feed-In Tariff for PV in Palo Alto, Calif. Imminent: http://tinyurl.com/72sxgsb

The Issue of Ownership
PEC Wind Power

Local Ownership

<table>
<thead>
<tr>
<th></th>
<th>Total Jobs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Absentee</td>
<td></td>
</tr>
<tr>
<td>Community</td>
<td>1.1x (low)</td>
</tr>
<tr>
<td>Community</td>
<td>2.8x (high)</td>
</tr>
</tbody>
</table>

Economic Development Impacts of Community Wind Projects: A Review and Empirical Evaluation (NREL)
Local Ownership

<table>
<thead>
<tr>
<th>Ownership Type</th>
<th>Total Economic Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Absentee</td>
<td></td>
</tr>
<tr>
<td>Community (low)</td>
<td>1.5x</td>
</tr>
<tr>
<td>Community (high)</td>
<td>3.4x</td>
</tr>
</tbody>
</table>

Total Economic Impact

 Economic Development Impacts of Community Wind Projects: A Review and Empirical Evaluation (NREL)

The Whole Puzzle

Cost  Value
Scale  Ownership
Public Support

No local ownership

60% negative

Local ownership

45% positive

Your Own Pigs Don’t Stink
Sol Partners Community Solar

- 10 kW solar array
- Financed by utility
- Members buy panel shares ($5/Watt)

SunSmart Community Solar

- 100 kW solar array
- Financed by utilities
- Members buy panel shares ($6/Watt)
S.D. Wind Partners

- 12 MW wind project
- 7 turbines
- 600 owner-financiers

Questions?
Solving the Clean Energy Puzzle

John Farrell
energyselfreliantstates.org
jfarrell@ilsr.org
johnffarrell

[Image of a puzzle with Cost, Value, Scale, and Ownership]

Minutes Acceptance: Minutes of Apr 2, 2012 5:00 PM (Minutes Approval)
PEC RE goals

- BOD Goal of 30% renewable capacity by 2020

- FY2011
  - 260 MW / 614 GWH
    - South Trent wind - 90 MW / 311 GWH (235 mi., owned by NRG / AEP Energy Partners)
    - Lower Colorado River Authority allocation - 169 MW / 304 GWH
      - Texas Wind Power Project - Culberson County (419 mi.) - locally owned up there
      - Delaware Mtn Wind Farm - Culberson County (419 mi.) NextEra Energy Resources
      - Indian Mesa Wind Farm (500 mi.) FPL
      - Papalote Creek Wind Farm (170 mi.) E.On
    - Solar facilities - Two 3.6 kW arrays
  - 21% of capacity, 12% of energy
  - “Renewable Retail Rate” - premium of $0.005/kWh generated $30,500

Notes

- We are currently doing much more than most other Cooperatives which don’t have mandatory regulatory requirements imposed on them

- existing and proposed goals, fiscal impact, as well as the Frontier report as a resource

- the Energy Committee is familiar with these topics, the remaining Board members are much less

- The challenge the Board has is to balance their initiatives to reduce the Cooperative’s controllable costs with the desire to ramp up these initiatives that will increase controllable costs with the hope of reducing future costs.
DG policy

* Net metering to 20 kW
* Excess at avoided cost
  * 149 systems for 624 kW capacity (mostly solar)

Regulatory landscape

* RE: “Competitive electric providers” must have collective 10,000 MW of RE by 2025, proportional to market share.
* EE: Utilities in competitive markets - 20% reduction in demand growth, lesser of 30% in 2013 or 0.4% of peak demand. Must be cost-effective,
Proposals

* energy efficiency
  * 15% cut in demand growth in 2013-14
  * 20% cut thereafter
* renewable energy
  * 30% of annual system peak from RE
  * “The Cooperative will pay a price for distributed renewable generation that reflects its value”

Stats

* 1240 MW of peak demand
* 5117 GWh annual sales
* 70% sales residential / 30% commercial
* Avoided cost = 6.4 cents/kWh (2% escalator) and avoided demand $80/kW
Solar Costs in Depth

<table>
<thead>
<tr>
<th></th>
<th>With ITC</th>
<th>ITC</th>
</tr>
</thead>
<tbody>
<tr>
<td>$4/Watt</td>
<td>15.6</td>
<td>12</td>
</tr>
<tr>
<td>$5/Watt</td>
<td>19.5</td>
<td>15</td>
</tr>
<tr>
<td>$6/Watt</td>
<td>23.5</td>
<td>18</td>
</tr>
</tbody>
</table>
Pedernales Electric Cooperative
Forum on Energy Efficiency and Renewable Resources

The Role of Energy Efficiency & Renewables Resources in LCRA’s Supply Plans

Michael McCluskey
Manager, Resource Development

April 2, 2012

LCRA – 2011 Generation Mix

- Hydro: 1.5%
- Wind: 6.2%
- Bilateral Purchases: 14.4%
- Simple Cycle Gas: 0.5%
- Combined Cycle Gas: 25.1%
- Steam - Gas: 6.5%
- Coal: 45.8%
### LCRA’s Renewable Power – Wind

<table>
<thead>
<tr>
<th>Wind Power</th>
<th>Location</th>
<th>Capacity (MW)</th>
<th>Term Ends</th>
<th>Environmental Attributes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Texas Wind Power Project</td>
<td>West Texas</td>
<td>25 of 35</td>
<td>2020</td>
<td>REC Offsets</td>
</tr>
<tr>
<td>Delaware Mountain</td>
<td>West Texas</td>
<td>30</td>
<td>2014</td>
<td>RECs</td>
</tr>
<tr>
<td>Indian Mesa</td>
<td>West Texas</td>
<td>51</td>
<td>2014</td>
<td>RECs</td>
</tr>
<tr>
<td>Papalote Creek II</td>
<td>Gulf Coast</td>
<td>200</td>
<td>2028</td>
<td>RECs</td>
</tr>
</tbody>
</table>

RECs = Renewable Energy Credits  
Wind Net Dependable Capacity = 8.7% of nameplate

### LCRA’s Renewable Power – Hydro

<table>
<thead>
<tr>
<th>Hydroelectric Power</th>
<th>Year Built</th>
<th># of Generators</th>
<th>Capacity (MW)</th>
<th>Environmental Attributes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buchanan Dam</td>
<td>1937</td>
<td>3</td>
<td>54.6</td>
<td>REC Offsets</td>
</tr>
<tr>
<td>Inks Dam</td>
<td>1938</td>
<td>1</td>
<td>14</td>
<td>REC Offsets</td>
</tr>
<tr>
<td>Wirtz Dam</td>
<td>1950</td>
<td>2</td>
<td>60</td>
<td>REC Offsets</td>
</tr>
<tr>
<td>Starcke Dam</td>
<td>1952</td>
<td>2</td>
<td>42.8</td>
<td>REC Offsets</td>
</tr>
<tr>
<td>Mansfield Dam</td>
<td>1941</td>
<td>3</td>
<td>106.5</td>
<td>REC Offsets</td>
</tr>
<tr>
<td>Tom Miller Dam</td>
<td>1940</td>
<td>2</td>
<td>17.3</td>
<td>REC Offsets</td>
</tr>
</tbody>
</table>

RECs = Renewable Energy Credits
Value of Renewables

• Financial
  – Generation Diversification
  – Competitive Market Price
  – Hedge against fossil fuel prices
  – Hedge against potential environmental regulations
  – Hedge against potential Federal Renewable Portfolio Standard

• Social
  – Emission Free Resource
  – Conservation of Natural Resources
  – Green Jobs

Annualized New Generation Costs

- Natural Gas Price = $6.00 / MMBtu
- Delivered Coal Price = $2.50 / MMBtu
- CO₂ Cost = $10.00 / Ton
- Renewable Technology Costs do not include Tax Credits

Sources:
EIA Annual Energy Outlook, IHS CERA, Wood Mackenzie, ERCOT
Energy Efficiency & Demand Management

• Energy Efficiency
  – Traditional programs such as Home Weatherization, High Efficiency Air Conditioning, & Lighting

• Demand Management
  – Late Stage of pilot programs with Pedernales Electric Cooperative and Bluebonnet Electric Cooperative
  – Technology Assessment of Direct Load Control Devices
    • Pool Pumps, HVAC & Water Heaters
    • Approx 100 homes in PEC study area
  – Working with ERCOT to determine compensation process
  – Impact of Demand Management is being incorporated into LCRA long term peak requirements forecast

Questions and Discussion
# GROWTH STATISTICS

<table>
<thead>
<tr>
<th>YEAR/MONTH</th>
<th>ACTIVE ACCOUNTS*</th>
<th>NET INCREASE</th>
<th>APPLICATIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2010</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>January</td>
<td>233,065</td>
<td>312</td>
<td>1,543</td>
</tr>
<tr>
<td>February</td>
<td>233,329</td>
<td>264</td>
<td>1,607</td>
</tr>
<tr>
<td>March</td>
<td>233,903</td>
<td>574</td>
<td>1,897</td>
</tr>
<tr>
<td>April</td>
<td>234,429</td>
<td>526</td>
<td>1,863</td>
</tr>
<tr>
<td>May</td>
<td>234,865</td>
<td>436</td>
<td>2,034</td>
</tr>
<tr>
<td>June</td>
<td>235,339</td>
<td>474</td>
<td>2,220</td>
</tr>
<tr>
<td>July</td>
<td>235,690</td>
<td>351</td>
<td>2,224</td>
</tr>
<tr>
<td>August</td>
<td>236,115</td>
<td>425</td>
<td>2,451</td>
</tr>
<tr>
<td>September</td>
<td>236,279</td>
<td>164</td>
<td>1,792</td>
</tr>
<tr>
<td>October</td>
<td>236,441</td>
<td>162</td>
<td>1,771</td>
</tr>
<tr>
<td>November</td>
<td>236,822</td>
<td>381</td>
<td>1,323</td>
</tr>
<tr>
<td>December</td>
<td>236,997</td>
<td>175</td>
<td>1,502</td>
</tr>
<tr>
<td><strong>2011</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>January</td>
<td>237,470</td>
<td>473</td>
<td>1,532</td>
</tr>
<tr>
<td>February</td>
<td>237,741</td>
<td>271</td>
<td>1,557</td>
</tr>
<tr>
<td>March</td>
<td>238,171</td>
<td>430</td>
<td>1,863</td>
</tr>
<tr>
<td>April</td>
<td>238,550</td>
<td>379</td>
<td>1,671</td>
</tr>
<tr>
<td>May</td>
<td>239,044</td>
<td>494</td>
<td>1,922</td>
</tr>
<tr>
<td>June</td>
<td>239,579</td>
<td>535</td>
<td>2,340</td>
</tr>
<tr>
<td>July</td>
<td>240,140</td>
<td>561</td>
<td>2,219</td>
</tr>
<tr>
<td>August</td>
<td>240,870</td>
<td>730</td>
<td>2,653</td>
</tr>
<tr>
<td>September</td>
<td>241,058</td>
<td>188</td>
<td>1,905</td>
</tr>
<tr>
<td>October</td>
<td>241,691</td>
<td>633</td>
<td>1,655</td>
</tr>
<tr>
<td>November</td>
<td>241,987</td>
<td>296</td>
<td>1,655</td>
</tr>
<tr>
<td>December</td>
<td>242,331</td>
<td>344</td>
<td>1,615</td>
</tr>
<tr>
<td><strong>2012</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>January</td>
<td>242,625</td>
<td>294</td>
<td>1,614</td>
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<tr>
<td>February</td>
<td>242,970</td>
<td>345</td>
<td>1,850</td>
</tr>
<tr>
<td>March</td>
<td>243,349</td>
<td>379</td>
<td>2,063</td>
</tr>
</tbody>
</table>

**Active Accounts** was formerly identified as "Number of Consumers." Active Accounts are meters and lights only.
## Consolidated Income Statement

### KWH Purchased (available for sale)

<table>
<thead>
<tr>
<th></th>
<th>MTD April 2012</th>
<th>MTD April 2012</th>
<th>MTD April 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual</td>
<td>360,105,389</td>
<td>444,353,178</td>
<td>433,134,053</td>
</tr>
<tr>
<td>Budget</td>
<td>336,113,372</td>
<td>415,994,381</td>
<td>404,041,582</td>
</tr>
</tbody>
</table>

### KWH Sold

<table>
<thead>
<tr>
<th></th>
<th>MTD April 2012</th>
<th>MTD April 2012</th>
<th>MTD April 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual</td>
<td>336,113,372</td>
<td>415,994,381</td>
<td>404,041,582</td>
</tr>
<tr>
<td>Budget</td>
<td>336,113,372</td>
<td>415,994,381</td>
<td>404,041,582</td>
</tr>
</tbody>
</table>

### OPERATING REVENUES:

<table>
<thead>
<tr>
<th></th>
<th>Actual April 2012</th>
<th>Budget April 2012</th>
<th>Actual April 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sale of Electricity</td>
<td>$36,498,943</td>
<td>$45,341,548</td>
<td>$48,771,047</td>
</tr>
<tr>
<td>Other Revenue</td>
<td>$2,721,057</td>
<td>$2,201,868</td>
<td>$2,109,478</td>
</tr>
<tr>
<td>Operating Revenues - total</td>
<td>$39,220,000</td>
<td>$47,543,416</td>
<td>$50,880,525</td>
</tr>
</tbody>
</table>

### OPERATING & MAINTENANCE EXPENSES:

<table>
<thead>
<tr>
<th></th>
<th>Actual April 2012</th>
<th>Budget April 2012</th>
<th>Actual April 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchased Power</td>
<td>20,767,064</td>
<td>27,244,050</td>
<td>25,011,191</td>
</tr>
<tr>
<td>Transmission Operations</td>
<td>90,415</td>
<td>44,335</td>
<td>26,654</td>
</tr>
<tr>
<td>Transmission Maintenance</td>
<td>144,351</td>
<td>120,688</td>
<td>72,454</td>
</tr>
<tr>
<td>Distribution Operations</td>
<td>2,526,456</td>
<td>1,659,432</td>
<td>1,965,148</td>
</tr>
<tr>
<td>Distribution Maintenance</td>
<td>931,760</td>
<td>1,823,963</td>
<td>1,136,270</td>
</tr>
<tr>
<td>Consumer Accounts</td>
<td>1,352,615</td>
<td>1,951,072</td>
<td>2,047,523</td>
</tr>
<tr>
<td>Customer Service &amp; Information</td>
<td>348,283</td>
<td>362,615</td>
<td>183,845</td>
</tr>
<tr>
<td>Economic Development</td>
<td>120,741</td>
<td>102,549</td>
<td>49,316</td>
</tr>
<tr>
<td>Administrative &amp; General</td>
<td>2,328,958</td>
<td>2,362,846</td>
<td>1,866,591</td>
</tr>
<tr>
<td>Depreciation</td>
<td>3,721,990</td>
<td>3,562,700</td>
<td>3,310,651</td>
</tr>
<tr>
<td>Tax Expense</td>
<td>410,063</td>
<td>532,581</td>
<td>492,058</td>
</tr>
<tr>
<td>Operating &amp; Maintenance Expenses - total</td>
<td>$32,742,696</td>
<td>$39,766,831</td>
<td>$36,191,701</td>
</tr>
</tbody>
</table>

### MARGIN BEFORE INTEREST

<table>
<thead>
<tr>
<th></th>
<th>April 2012</th>
<th>April 2012</th>
<th>April 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>MARGIN BEFORE INTEREST</td>
<td>$6,477,304</td>
<td>$7,776,585</td>
<td>$14,688,824</td>
</tr>
</tbody>
</table>

### INTEREST EXPENSE:

<table>
<thead>
<tr>
<th></th>
<th>Actual April 2012</th>
<th>April 2012</th>
<th>Actual April 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest on Long-Term Debt</td>
<td>3,211,927</td>
<td>3,335,183</td>
<td>3,398,112</td>
</tr>
<tr>
<td>Interest Charged to Construction</td>
<td>(42,929)</td>
<td>(118,750)</td>
<td>(120,027)</td>
</tr>
<tr>
<td>Interest Expense-Other</td>
<td>593</td>
<td>34,000</td>
<td>478</td>
</tr>
<tr>
<td>Interest Expense - Total</td>
<td>3,169,591</td>
<td>3,250,433</td>
<td>3,278,563</td>
</tr>
</tbody>
</table>

### MARGIN AFTER INTEREST

<table>
<thead>
<tr>
<th></th>
<th>Actual April 2012</th>
<th>April 2012</th>
<th>Actual April 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>MARGIN AFTER INTEREST</td>
<td>3,307,713</td>
<td>4,526,152</td>
<td>11,410,261</td>
</tr>
</tbody>
</table>

### OTHER INCOME(Expense):

<table>
<thead>
<tr>
<th></th>
<th>Actual April 2012</th>
<th>Actual April 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Income-Other</td>
<td>53,248</td>
<td>60,000</td>
</tr>
<tr>
<td>Other Income (Expense)</td>
<td>(176,870)</td>
<td>(54,439)</td>
</tr>
<tr>
<td>(123,622)</td>
<td>5,561</td>
<td>158,014</td>
</tr>
</tbody>
</table>

### NET MARGIN (LOSS)

<table>
<thead>
<tr>
<th></th>
<th>Actual April 2012</th>
<th>Actual April 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>NET MARGIN (LOSS)</td>
<td>$3,184,091</td>
<td>$4,531,713</td>
</tr>
</tbody>
</table>

Page 2 of 6
## Consolidated Cash Flow Statement

<table>
<thead>
<tr>
<th>CASH FLOWS FROM OPERATING ACTIVITIES:</th>
<th>February 2012</th>
<th>February 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excess of revenues over(under) expenses</td>
<td>$4,877,789</td>
<td>$13,635,097</td>
</tr>
<tr>
<td>Adjustments to reconcile excess of revenues over(under) expenses to net cash provided (used) by operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation &amp; amortization</td>
<td>7,532,405</td>
<td>6,717,412</td>
</tr>
<tr>
<td>Provision for uncollectible accounts</td>
<td>(29,700)</td>
<td>200,052</td>
</tr>
<tr>
<td>Deferred charges for postretirement benefits</td>
<td>3,062,215</td>
<td>1,777,167</td>
</tr>
<tr>
<td>Changes in assets and liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable, net</td>
<td>(2,373,197)</td>
<td>(14,861,198)</td>
</tr>
<tr>
<td>Accrued unbilled revenue</td>
<td>4,905,207</td>
<td>1,114,140</td>
</tr>
<tr>
<td>Materials &amp; supplies</td>
<td>(3,053,128)</td>
<td>772,077</td>
</tr>
<tr>
<td>Prepayments &amp; other current assets</td>
<td>(1,099,684)</td>
<td>(401,936)</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>(7,727,186)</td>
<td>(4,421,057)</td>
</tr>
<tr>
<td>Consumer deposits</td>
<td>283,790</td>
<td>502,828</td>
</tr>
<tr>
<td>Accrued taxes</td>
<td>(4,236,707)</td>
<td>(3,460,127)</td>
</tr>
<tr>
<td>Accrued interest</td>
<td>4,847,771</td>
<td>5,031,541</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>(1,801,013)</td>
<td>2,450,778</td>
</tr>
<tr>
<td>Other deferred credits &amp; liabilities</td>
<td>(1,943,144)</td>
<td>(4,800,403)</td>
</tr>
<tr>
<td>Net cash provided(used) by operating activities</td>
<td>5,310,476</td>
<td>4,256,371</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CASH FLOWS FROM INVESTING ACTIVITIES:</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net additions to property, plant, &amp; equipment</td>
<td>(6,307,810)</td>
<td>(11,826,211)</td>
</tr>
<tr>
<td>Net cash provided(used) by investing activities</td>
<td>(6,307,810)</td>
<td>(11,826,211)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CASH FLOWS FROM FINANCING ACTIVITIES:</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Postretirement medical benefits paid</td>
<td>(199,735)</td>
<td>(169,776)</td>
</tr>
<tr>
<td>Authorized retirement - patronage capital credits</td>
<td>(359)</td>
<td>-</td>
</tr>
<tr>
<td>Net increase in membership certificates</td>
<td>50,830</td>
<td>37,315</td>
</tr>
<tr>
<td>Net cash provided(used) by financing activities</td>
<td>(149,264)</td>
<td>(132,461)</td>
</tr>
</tbody>
</table>

| Net increase(decrease) in cash & cash equivalents | (1,146,598) | (7,702,301) |
|Cash & cash equivalents at beginning of period | 27,861,349  | 20,603,201   |
|Cash & cash equivalents at end of period | $26,714,751 | $12,900,900  |
## Consolidated Balance Sheet

### ASSETS

#### UTILITY PLANT:
- **In Service:**
  - Transmission: $84,603,560, $84,617,221, $(13,661), (0.02%)
  - Distribution: 1,117,267,133, 1,113,737,231, 3,529,902, 0.32%
  - General & Electric: 137,735,264, 137,498,493, 236,771, 0.17%
  - Utility Plant - in service: 1,339,605,957, 1,335,852,945, 3,753,012, 0.28%
  - Long-Term Capital Projects: 29,214,686, 24,678,464, 4,536,222, 18.38%
- **Utility Plant - total:** 1,368,820,643, 1,360,531,409, 8,289,234, 0.61%
- **Accumulated Depreciation:** $(244,666,703), $(235,245,369), (9,421,334), (4.00%)
- **Utility Plant - net:** 1,124,153,940, 1,125,286,040, (1,132,100), (0.10%)

#### LONG TERM INVESTMENTS:
- **Capital Term Certificates & Other:** 11,133,932, 11,133,932, - , 0.00%

#### CURRENT ASSETS:
- **Cash:** 26,714,751, 27,861,349, $(1,146,598), (4.12%)
- **Short-Term Investments:** 50,000, 50,000, - , 0.00%
- **Reserve Fund:** 35,000,000, 35,000,000, - , 0.00%
- **Contingency Fund:** 14,000,000, 14,000,000, - , 0.00%
- **Accounts Receivable:**
  - Members: 23,003,607, 21,458,971, 1,544,636, 7.20%
  - Other: 1,459,647, 836,048, 623,599, 74.59%
  - Allowance for Uncollectible Accts: (601,807), (836,469), 234,662, 28.05%
  - Accrued Unbilled Revenue: 17,430,711, 22,335,918, $(4,905,207), (21.96%)
  - Materials & Supplies: 12,894,621, 9,841,493, 3,053,128, 31.02%
  - Prepayments & Other: 1,944,658, 934,974, 1,009,684, 107.99%
- **Current Assets - total:** 131,896,188, 131,482,284, 413,904, 0.31%

#### DEFERRED CHARGES & OTHER ASSETS:
- **Regulatory Assets:** 78,674,506, 80,649,564, $(1,975,058), (2.45%)
- **Other Deferred Charges:** 5,142,034, 5,234,529, $(92,495), (1.77%)
- **Deferred Charges & Other Assets - total:** 83,816,540, 85,884,093, $(2,067,553), (2.41%)

**TOTAL ASSETS:** $1,351,000,600, $1,353,786,349, $(2,785,749), (0.21%)
## Consolidated Balance Sheet

<table>
<thead>
<tr>
<th></th>
<th>February 2012</th>
<th>December 2011</th>
<th>$ Variance</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EQUITY &amp; LIABILITIES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>EQUITY:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Membership Certificates</td>
<td>$ 9,749,370</td>
<td>$ 9,698,540</td>
<td>$ 50,830</td>
<td>0.52%</td>
</tr>
<tr>
<td>Patronage Capital</td>
<td>396,593,163</td>
<td>391,715,733</td>
<td>4,877,430</td>
<td>1.25%</td>
</tr>
<tr>
<td>Equity - total</td>
<td>406,342,533</td>
<td>401,414,273</td>
<td>4,928,260</td>
<td>1.23%</td>
</tr>
<tr>
<td><strong>LONG-TERM DEBT:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>93 Issue - $80m - 2020</td>
<td>80,000,000</td>
<td>80,000,000</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>95 Issue - $135m - 2015</td>
<td>33,597,000</td>
<td>33,597,000</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>02 Issue - $450m - 2032</td>
<td>368,400,000</td>
<td>368,400,000</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>08 Issue - $300m - 2043</td>
<td>230,000,000</td>
<td>230,000,000</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Long-Term Debt - total</td>
<td>711,997,000</td>
<td>711,997,000</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>CURRENT LIABILITIES:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Maturities of LTD</td>
<td>20,092,000</td>
<td>20,092,000</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>35,023,009</td>
<td>42,750,195</td>
<td>(7,727,186)</td>
<td>(18.08%)</td>
</tr>
<tr>
<td>Consumer Deposits</td>
<td>3,649,206</td>
<td>3,365,416</td>
<td>283,790</td>
<td>8.43%</td>
</tr>
<tr>
<td>Accrued Taxes</td>
<td>3,060,545</td>
<td>7,297,252</td>
<td>(4,236,707)</td>
<td>(58.06%)</td>
</tr>
<tr>
<td>Accrued Interest</td>
<td>9,569,295</td>
<td>4,721,524</td>
<td>4,847,771</td>
<td>102.67%</td>
</tr>
<tr>
<td>Other Current Liabilities</td>
<td>7,762,031</td>
<td>9,563,044</td>
<td>(1,801,013)</td>
<td>(18.33%)</td>
</tr>
<tr>
<td>Current Liabilities - total</td>
<td>79,156,086</td>
<td>87,769,431</td>
<td>(8,633,345)</td>
<td>(9.63%)</td>
</tr>
<tr>
<td><strong>DEFERRED CREDITS &amp; OTHER</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>NONCURRENT LIABILITIES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Postretirement Benefits Obligation</td>
<td>146,363,140</td>
<td>143,500,660</td>
<td>2,862,480</td>
<td>1.99%</td>
</tr>
<tr>
<td>Other Deferred Credits</td>
<td>7,141,841</td>
<td>9,084,985</td>
<td>(1,943,144)</td>
<td>(21.39%)</td>
</tr>
<tr>
<td>Deferred Credits - total</td>
<td>153,504,981</td>
<td>152,585,645</td>
<td>919,336</td>
<td>0.60%</td>
</tr>
<tr>
<td><strong>TOTAL EQUITY &amp; LIABILITIES</strong></td>
<td>$ 1,351,000,600</td>
<td>$ 1,353,786,349</td>
<td>$(2,785,749)</td>
<td>(0.21%)</td>
</tr>
<tr>
<td>Equity as a Percent of Assets</td>
<td>30.08%</td>
<td>29.65%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity Capitalization</td>
<td>35.69%</td>
<td>35.41%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
# February 2012
## Key Indicators & Ratios

<table>
<thead>
<tr>
<th></th>
<th>MTD February 2012</th>
<th>MTD February 2011</th>
<th>YTD February 2012</th>
<th>YTD February 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Consolidated</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net Margins</strong></td>
<td>$3,184,091</td>
<td>$11,568,275</td>
<td>$4,877,789</td>
<td>$13,635,097</td>
</tr>
<tr>
<td>Margin as a % of Total Operating Revenue</td>
<td>8.12%</td>
<td>24.33%</td>
<td>5.98%</td>
<td>14.37%</td>
</tr>
<tr>
<td><strong>Total Operating Revenue per total mile of line</strong></td>
<td>$2,255.67</td>
<td>$2,945.45</td>
<td>$4,692.28</td>
<td>$5,480.24</td>
</tr>
<tr>
<td><strong>Members connected</strong></td>
<td>3,278</td>
<td>2,770</td>
<td>6,295</td>
<td>5,805</td>
</tr>
<tr>
<td><strong>Total Miles of Line:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transmission</td>
<td>304.28</td>
<td>304.28</td>
<td>304.28</td>
<td>304.28</td>
</tr>
<tr>
<td>Distribution Overhead</td>
<td>14,807.03</td>
<td>14,742.54</td>
<td>14,807.03</td>
<td>14,742.54</td>
</tr>
<tr>
<td>Distribution Underground</td>
<td>2,275.96</td>
<td>2,227.46</td>
<td>2,275.96</td>
<td>2,227.46</td>
</tr>
<tr>
<td><strong>Total Miles energized</strong></td>
<td>17,387.27</td>
<td>17,274.28</td>
<td>17,387.27</td>
<td>17,274.28</td>
</tr>
<tr>
<td><strong>Total Active Accounts</strong></td>
<td></td>
<td></td>
<td>242,970</td>
<td>237,741</td>
</tr>
<tr>
<td><strong>Total Memberships</strong></td>
<td></td>
<td></td>
<td>204,779</td>
<td>200,183</td>
</tr>
<tr>
<td><strong>Meters per mile</strong></td>
<td></td>
<td></td>
<td>13.97</td>
<td>13.76</td>
</tr>
<tr>
<td><strong>Full time employees</strong></td>
<td>810</td>
<td>865</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Average bill</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Residential</td>
<td>$127</td>
<td>$173</td>
<td>$274</td>
<td>$307</td>
</tr>
<tr>
<td>Small Power</td>
<td>$206</td>
<td>$242</td>
<td>$420</td>
<td>$438</td>
</tr>
<tr>
<td>Large Power/Industrial</td>
<td>$6,169</td>
<td>$6,718</td>
<td>$8,103</td>
<td>$12,346</td>
</tr>
<tr>
<td>Public</td>
<td>$985</td>
<td>$1,190</td>
<td>$1,591</td>
<td>$2,069</td>
</tr>
<tr>
<td><strong>Revenue per kWh</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Residential</td>
<td>$0.1153</td>
<td>$0.1125</td>
<td>$0.1138</td>
<td>$0.1077</td>
</tr>
<tr>
<td>Small Power</td>
<td>$0.1067</td>
<td>$0.1063</td>
<td>$0.1060</td>
<td>$0.1013</td>
</tr>
<tr>
<td>Large Power/Industrial</td>
<td>$0.0810</td>
<td>$0.0830</td>
<td>$0.0540</td>
<td>$0.0786</td>
</tr>
<tr>
<td>Public</td>
<td>$0.0831</td>
<td>$0.0854</td>
<td>$0.0829</td>
<td>$0.0793</td>
</tr>
<tr>
<td><strong>Average kWh usage</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Residential</td>
<td>1,101</td>
<td>1,538</td>
<td>2,408</td>
<td>2,854</td>
</tr>
<tr>
<td>Small Power</td>
<td>1,930</td>
<td>2,278</td>
<td>3,966</td>
<td>4,319</td>
</tr>
<tr>
<td>Large Power/Industrial</td>
<td>76,182</td>
<td>80,916</td>
<td>149,999</td>
<td>157,160</td>
</tr>
<tr>
<td>Public</td>
<td>11,848</td>
<td>13,820</td>
<td>24,000</td>
<td>26,102</td>
</tr>
<tr>
<td><strong>Electrical bad debt write-off</strong></td>
<td>$298,856</td>
<td>$135,472</td>
<td>$368,477</td>
<td>$331,336</td>
</tr>
<tr>
<td>Non-electric bad debt write off</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
</tr>
<tr>
<td><strong>Power bill invoices paid</strong></td>
<td>$24,390,931</td>
<td>$28,261,079</td>
<td>$50,359,408</td>
<td>$56,012,548</td>
</tr>
<tr>
<td><strong>Power bill invoices kWh</strong></td>
<td>389,680,298</td>
<td>483,659,980</td>
<td>810,806,455</td>
<td>958,296,628</td>
</tr>
<tr>
<td><strong>Cost per kWh</strong></td>
<td>$0.0626</td>
<td>$0.0584</td>
<td>$0.0621</td>
<td>$0.0585</td>
</tr>
<tr>
<td>kWh Purchased (available for sale)</td>
<td>360,105,389</td>
<td>433,134,053</td>
<td>765,989,514</td>
<td>900,369,753</td>
</tr>
<tr>
<td>kWh Sold</td>
<td>336,113,372</td>
<td>404,041,582</td>
<td>712,620,113</td>
<td>841,906,767</td>
</tr>
<tr>
<td>kWh PEC system use</td>
<td>465,576</td>
<td>286,958</td>
<td>970,030</td>
<td>809,395</td>
</tr>
<tr>
<td>kWh Line loss</td>
<td>23,992,017</td>
<td>29,092,471</td>
<td>53,369,401</td>
<td>58,462,986</td>
</tr>
<tr>
<td>kWh Line loss % (12 month rolling average)</td>
<td>6.23%</td>
<td>7.31%</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Equity as a % of total assets</strong></td>
<td>30.08%</td>
<td>28.45%</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>% Cost of Power to Sale of Electricity Revenue</strong></td>
<td>56.90%</td>
<td>51.28%</td>
<td>59.98%</td>
<td>58.11%</td>
</tr>
<tr>
<td><strong>LTD as a % of Total Utility Plant</strong></td>
<td>65.12%</td>
<td>68.50%</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Debt Service coverage (twelve months ended)</strong></td>
<td>2.13</td>
<td>2.30</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>SAIFI</strong> Times. Forced outages only</td>
<td>0.02</td>
<td>0.08</td>
<td>0.06</td>
<td>0.13</td>
</tr>
<tr>
<td><strong>SAIDI</strong> Minutes. Forced outages only</td>
<td>2.00</td>
<td>7.80</td>
<td>5.80</td>
<td>9.40</td>
</tr>
</tbody>
</table>

Page 6 of 6
Safety Department Board Report
April 2012

Safety Accomplishments & Training

We have updated our reporting numbers to better reflect our safety efforts and resources. Instead of reporting on “Number of Employees Trained” we will report on the “Number of Training Sessions Held”. This new number will show how many safety training sessions we provided during the reporting month. The reporting figure “Class Attendance” will remain and serve to show how many seats were filled in all sessions throughout the month.

We kicked off our new Safety Training Program with our first course offering, Slings and Rigging. This four hour course taught attendees to solve problems related to rigging loads. The employee will have passed testing to demonstrate the rigger’s training was accurate and the rigger’s experience has led to correct understanding and application. Upon completion the learner will receive a certificate of Qualified Rigger for Pedernales Electric Cooperative.

- 271 employees completed Slings and Rigging.

The OSHA 10 Hour Construction Industry course continued to be offered in March. This course introduces attendees to OSHA (Occupational Health and Safety Administration), OSHA regulations, and the hazards faced in our industry. This course is geared towards our transmission and distribution employees and focuses on electrocution hazards, fall hazards, struck-by accidents, and personal protective grounding practices.

- 64 employees completed this course in March.
  - Total of 155 employees have completed OSHA 10 Hour Construction Industry.

A new health course, Day-to-Day Wellness, premiered its first two sessions this month. This course was designed to provide employees information on diet, exercise and how eating right can improve your overall health and wellness. We had a great response to this new class and will be scheduling more throughout the year.

- 34 employees completed Day to Day Wellness.

PEC sent all of our safety instructors and safety manager to an Advanced Accident Investigation training class. This training taught how to conduct an accident investigation that will aid in determining contributing factors that lead to the injury and how to develop a course of action to prevent future problems. This course was the last part of the program taken for our instructors to receive their accident investigation certification.
PEC Safety Performance

We continue to monitor trends and proactively respond to potential safety hazards on the job and in the workplace.

The two standards PEC uses to measure safety performance:

- The Total Case Incident Rate (TCIR)
- Days Away Restricted Time (DART)

Average Man-hours worked per month (11/01/2011 – 3/31/2012): 127,671.67
Average Recordable injuries/illnesses per month (11/01/2011 – 3/31/2012): 1.8

### TCIR

<table>
<thead>
<tr>
<th>TCIR</th>
<th>TCIR Ending 10/31/2011</th>
<th>TCIR thru 2/29/2012</th>
<th>TCIR Thru 3/31/2012</th>
<th>PEC’s TCIR Goal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total OSHA-recordable injuries/illnesses</td>
<td>2.51</td>
<td>3.03</td>
<td>2.82</td>
<td>&lt;2.7</td>
</tr>
</tbody>
</table>

Calculated as: Total number of recordable injuries/illnesses x 200,000 / man-hours worked

### DART

<table>
<thead>
<tr>
<th>DART</th>
<th>DART Ending 10/31/2011</th>
<th>DART thru 2/29/2012</th>
<th>DART Thru 3/31/2012</th>
<th>PEC’s DART Goal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total lost time and restricted duty injuries/illnesses</td>
<td>2.01</td>
<td>2.4</td>
<td>2.19</td>
<td>&lt;1.0</td>
</tr>
</tbody>
</table>

Calculated as: Total number of injuries/illnesses that result in Lost Time or Restricted Duty x 200,000 / man-hours worked
March Monthly Statistics

Lost Time:

- Employee strained back while pulling on URD cables.

OSHA Recordable Injuries:

- Wood particle blew into employee’s eye while changing out a transformer fuse during a rain storm.

Non-Recordable First Aid:

- None

Vehicle Accidents:

- Employee in company truck pulling a cargo trailer backed into a third party vehicle in a parking lot.
### RELIABILITY (Forced)

<table>
<thead>
<tr>
<th>Month</th>
<th>April</th>
<th>May</th>
<th>June</th>
<th>July</th>
<th>Aug</th>
<th>Sept</th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
<th>Jan</th>
<th>Feb</th>
<th>March</th>
</tr>
</thead>
<tbody>
<tr>
<td>SAIDI (min)</td>
<td>3.9</td>
<td>5.8</td>
<td>2.9</td>
<td>3.7</td>
<td>4.2</td>
<td>4.8</td>
<td>3.9</td>
<td>2.7</td>
<td>4.3</td>
<td>3.8</td>
<td>2</td>
<td>5.3</td>
</tr>
<tr>
<td>SAIDI, Rolling 12 Month Total (min)</td>
<td>43</td>
<td>46.4</td>
<td>37.4</td>
<td>39.2</td>
<td>40.6</td>
<td>40.6</td>
<td>41.3</td>
<td>41.4</td>
<td>41.3</td>
<td>43.6</td>
<td>38</td>
<td>42.8</td>
</tr>
<tr>
<td>SAIFI</td>
<td>0.03</td>
<td>0.07</td>
<td>0.03</td>
<td>0.07</td>
<td>0.04</td>
<td>0.06</td>
<td>0.04</td>
<td>0.06</td>
<td>0.04</td>
<td>0.02</td>
<td>0.07</td>
<td></td>
</tr>
<tr>
<td>CAIDI (min)</td>
<td>68.9</td>
<td>83.3</td>
<td>97.7</td>
<td>53.3</td>
<td>101.7</td>
<td>85.1</td>
<td>95.2</td>
<td>72.5</td>
<td>85.2</td>
<td>119.3</td>
<td>80.2</td>
<td></td>
</tr>
</tbody>
</table>

### SUBSTATION CONSTRUCTION PROJECTS

<table>
<thead>
<tr>
<th>In Design</th>
<th>In Construction</th>
<th>Completed Projects</th>
</tr>
</thead>
<tbody>
<tr>
<td>Barksdale</td>
<td>Devil's Hill</td>
<td>Spicewood</td>
</tr>
<tr>
<td>Blanco</td>
<td>E. Babe Smith</td>
<td></td>
</tr>
<tr>
<td>Bullick Hollow</td>
<td>7 Sub Circuit Sw/MLSE</td>
<td></td>
</tr>
<tr>
<td>Bertram</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Leander</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Glasscock</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Blockhouse</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### 2012 DISTRIBUTION IMPROVEMENT PROJECTS

<table>
<thead>
<tr>
<th></th>
<th>Design Pending</th>
<th>In Design</th>
<th>Ready to Build</th>
<th>In Construction</th>
<th>YTD Completions</th>
<th>Total Projects</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>80</td>
<td>53</td>
<td>15</td>
<td>28</td>
<td>8</td>
<td>167</td>
</tr>
</tbody>
</table>

### NEW LINE EXTENSIONS

<table>
<thead>
<tr>
<th></th>
<th>JANUARY</th>
<th>FEBRUARY</th>
<th>MARCH</th>
</tr>
</thead>
<tbody>
<tr>
<td>Completed</td>
<td>354</td>
<td>758</td>
<td>1,155</td>
</tr>
<tr>
<td>Pending</td>
<td>99</td>
<td>202</td>
<td>310</td>
</tr>
<tr>
<td>Idle or disconnected</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Total Year to Date</td>
<td>454</td>
<td>962</td>
<td>1,468</td>
</tr>
</tbody>
</table>
### Operations Summary Report

**March 2012**

#### Feeder Maintenance - Inspections

<table>
<thead>
<tr>
<th></th>
<th>January</th>
<th>February</th>
<th>March</th>
</tr>
</thead>
<tbody>
<tr>
<td>Completed</td>
<td>195, 100%</td>
<td>195, 100%</td>
<td>195, 100%</td>
</tr>
<tr>
<td>In progress</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Remaining</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

**Comments:** This section of the project was completed in April 2011

#### Feeder Maintenance - Construction

<table>
<thead>
<tr>
<th></th>
<th>January</th>
<th>February</th>
<th>March</th>
</tr>
</thead>
<tbody>
<tr>
<td>Completed</td>
<td>112, 57%</td>
<td>112, 57%</td>
<td>112, 57%</td>
</tr>
<tr>
<td>In progress</td>
<td>17 feeders</td>
<td>17 feeders</td>
<td>17 feeders</td>
</tr>
<tr>
<td>Feeders ready to work</td>
<td>68</td>
<td>68</td>
<td>68</td>
</tr>
</tbody>
</table>

**Comments:** Feeder work has been given to the Districts. No change from Jan.

#### Pole Inspection Program

<table>
<thead>
<tr>
<th></th>
<th>Total Poles Inspected 2011 YTD</th>
<th>Total Poles Rejected</th>
<th>Percentage of Poles Rejected</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>13202</td>
<td>691</td>
<td>5.2%</td>
</tr>
</tbody>
</table>

**Comments:**

#### Outages

<table>
<thead>
<tr>
<th>Top Three Causes</th>
<th>Number of Outages</th>
<th>Member’s affected</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weather</td>
<td>600</td>
<td>12,299</td>
</tr>
<tr>
<td>Scheduled</td>
<td>208</td>
<td>6,642</td>
</tr>
<tr>
<td>Equipment</td>
<td>102</td>
<td>5,507</td>
</tr>
</tbody>
</table>

For the month of March 2012 the outages affected in all 27,022 members. The total outage time was 1,893 hours, with a member outage time of 60,273 hours.

#### ERCOT Control Center Activity

- **Advisory for Physical Responsive Capability < 3000 MW:** 12
- **Watch for Physical Responsive Capability < 2500 MW:** 1
- **Level 1 of Energy Emergency Alert (EEA) < 2300 MW:**
- **Level 2a of EEA < 1750 MW:**
- **Level 2b of EEA < 60 Hz:**
- **Level 3 of EEA < 59.8 Hz (Rolling Blackouts):**

#### PEC Smart Grid Pilot (Consert)

- **PEC Test Control Event:** 0
- **LCRA Locational Marginal Price (LMP):** 0
- **ERCOT Summer Coincident Peak (4CP):** 0
- **ERCOT (EEA Level 1):** 0

**Comments:** Pilot project has been concluded. Final report is being prepared.

#### Unique Events

- Installed PEC mobile substation for AEP at their Friess Ranch substation for 69KV operating bus upgrade.
- Signed Master Service Agreement with Dashiell on 138/69KV equipment maintenance for 2012.
- Signed Professional Services contract for implementation of the SAP substation & transmission maintenance database.
- Reviewed information on the Mt. Top to Devil’s Hill transmission outage that occurred on 3-19-2012.
Rolling 12 Month SAIDI Reliability Indicator

The following table and graph indicates the Statistical Interruption Time per Meter during a rolling 12 month period previous to and including the month indicated. This is also referred to as the System Average Interruption Duration Index or SAIDI. The number values represent Interruption Time in Minutes. The time period is November 1 through October 31 for the actual KPI factor. Interruptions Exclude Planned, Transmission, Fire Marshall and Major Weather.

<table>
<thead>
<tr>
<th>Year</th>
<th>Jan</th>
<th>Feb</th>
<th>Mar</th>
<th>Apr</th>
<th>May</th>
<th>Jun</th>
<th>Jul</th>
<th>Aug</th>
<th>Sep</th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>43.1</td>
<td>44.3</td>
<td>44.8</td>
<td>45.8</td>
<td>43.8</td>
<td>49.0</td>
<td>50.0</td>
<td>51.1</td>
<td>52.3</td>
<td>53.1</td>
<td>53.3</td>
<td>50.6</td>
</tr>
<tr>
<td>2010</td>
<td>55.6</td>
<td>54.0</td>
<td>52.9</td>
<td>49.8</td>
<td>49.9</td>
<td>48.9</td>
<td>46.6</td>
<td>45.2</td>
<td>46.1</td>
<td>44.0</td>
<td>43.0</td>
<td>44.9</td>
</tr>
<tr>
<td>2011</td>
<td>38.1</td>
<td>45.0</td>
<td>42.6</td>
<td>43.5</td>
<td>44.0</td>
<td>37.4</td>
<td>39.2</td>
<td>40.6</td>
<td>40.6</td>
<td>41.3</td>
<td>41.4</td>
<td>41.3</td>
</tr>
<tr>
<td>2012</td>
<td>43.6</td>
<td>38.0</td>
<td>42.8</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: Platinum is 45 minutes per meter per year
Gold is 52 minutes per meter per year
Silver is 60 minutes per meter per year
Energy Usage and Average Temperature
Rolling 2 Year Comparison (Monthly)

PEC System Total kWh (non billing data)

Average Temperature

Rolling 2 Year Comparison (Monthly)

Monthly KWH - 4/10 thru 3/11
Monthly KWH - 4/11 thru 3/12
Average Temperature - 4/10 thru 3/11
Average Temperature - 4/11 thru 3/12
CONFLICT OF INTEREST POLICY
PEDERNALES ELECTRIC COOPERATIVE, INC.
BOARD ADOPTED: December 16, 2008

Conflict of Interest Certification and Disclosure Form

As defined in the Pedernales Electric Cooperative, Inc. Conflict of Interest Policy (Policy), the undersigned Official:

1. Affirms that Official has received or has access to, has read, and understands the most current version of the Policy;
2. Agrees to comply with the Policy;
3. Based upon Official's good faith belief, to the best of Official's knowledge, and except as disclosed below, certifies that Official currently complies with the Policy;
4. Discloses the following information or facts regarding any actual or potential income, employment, compensation, Conflicting Interest Transaction, Business Opportunity, or pecuniary benefit, or other information or fact, that could impact Official's compliance with the Policy:

5. Upon discovering any information or fact regarding any actual or potential income, employment, compensation, Conflicting Interest Transaction, Business Opportunity, or pecuniary benefit, or other information or fact, that could impact Official's compliance, or another Official's compliance, with the Policy, agrees to disclose this information or fact to Cooperative's President or Manager; and
6. Upon not complying with the Policy, agrees to any sanction, disqualification, removal, or other action taken under the Policy.

NATHAN BURNS
Printed Name of Official

Signature of Official

MARBLE FALLS DISTRICT MANAGER 3-20-12
Position of Official Date
CONFLICT OF INTEREST POLICY
PEDERNALES ELECTRIC COOPERATIVE, INC.
BOARD ADOPTED: December 16, 2008

Conflict of Interest Certification and Disclosure Form

As defined in the Pedernales Electric Cooperative, Inc. Conflict of Interest Policy (Policy), the undersigned Official:

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2. Agrees to comply with the Policy;
3. Based upon Official's good faith belief, to the best of Official's knowledge, and except as disclosed below, certifies that Official currently complies with the Policy;
4. Discloses the following information or facts regarding any actual or potential income, employment, compensation, Conflicting Interest Transaction, Business Opportunity, or pecuniary benefit, or other information or fact, that could impact Official's compliance with the Policy:

   N/A

5. Upon discovering any information or fact regarding any actual or potential income, employment, compensation, Conflicting Interest Transaction, Business Opportunity, or pecuniary benefit, or other information or fact, that could impact Official's compliance, or another Official's compliance, with the Policy, agrees to disclose this information or fact to Cooperative's President or Manager; and

6. Upon not complying with the Policy, agrees to any sanction, disqualification, removal, or other action taken under the Policy.

__________________________
Douglas E. Haines
Printed Name of Official

__________________________
D. Haynes
Signature of Official

__________________________
District Manager
Position of Official

3-20-12
Date
RESOLUTION (ID # 1965)

Subject: 2012 Annual Submissions and Approvals for Ballot

Submitted By: Lana Freudenberg

Department: Legal Services

Background:

Fiscal Impact:

Expenditure of Cooperative funds estimated in the amount of $0 included in the Cooperative's 2012 operating budget; expenditures of staff time estimated in amount of 0 hours (other than ordinary processing requirements).
RESOLUTION (ID # 1965)

Submission of Director Candidates for Ballot and Authorization for Placement on Ballot

NOW THEREFORE BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE COOPERATIVE, that the following individuals, having been reviewed and presented to the Board of Directors as nominees qualified for inclusion on the ballot as Director Candidates, are approved for inclusion on the 2012 election ballot in the order determined by random drawing and stated below:

Director District 1
{Names to be announced}

Director District 6
{Names to be announced}

Director District 7
{Names to be announced}

BE IT FURTHER RESOLVED that the Chief Executive Officer or his designee is authorized to take such actions as needed to implement this resolution.
RESOLUTION (ID # 1985)

**Subject:** Key Performance Indicators Amendments

**Submitted By:** Michael Racis

**Department:** Communications

**Background:**

**Fiscal Impact:**

No expenditure of Cooperative funds required; no expenditures of staff time other than ordinary processing requirements.
RESOLUTION (ID # 1985)

Key Performance Indicators Amendments

WHEREAS, the Cooperative establishes and tracks Key Performance Indicators ("KPI") to set objective measures and metrics for employee performance and to provide an objective method for calculating annual performance-based bonuses for its employees; and

WHEREAS, two of the KPIs relate to Member Services and currently are tied to benchmarks previously established by JD Power and Associates-Customer Satisfaction Rating and the JD Power and Associates Customer Service Rating, each of which has a 10% weighting in the KPI; and

WHEREAS, the Cooperative no longer uses the JD Power and Associates ratings and now uses the American Consumer Satisfaction Index Satisfaction Score ("ACSI Satisfaction Score") and the Interaction Score ("Interaction Score"), obtained from the TSE Services Residential Member Satisfaction Tracking Survey Report ("TSE Interaction Score"); and

WHEREAS, as discussed by the Board of Directors at its Special Board Meeting of Committees held on April 9, 2012, it is proposed that the KPI for Plan Year 2012 be amended to replace the JD Power-related KPI metrics with the ACSI Satisfaction Score and the TSE Interaction Score to better reflect how the Cooperative is currently tracking its performance relating to Member Services;

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE COOPERATIVE that the Cooperative amend its KPI for Plan Year 2012 to replace the JD Power related metrics found in Section 5 of the KPI with the ACSI Satisfaction Score and the TSE Interaction Score as follows:

<table>
<thead>
<tr>
<th>Metric</th>
<th>Silver</th>
<th>Gold</th>
<th>Platinum</th>
<th>Weighting</th>
</tr>
</thead>
<tbody>
<tr>
<td>American Consumer Satisfaction Index Satisfaction Score (as reported in the TSE Services Residential Member Satisfaction Tracking Survey Report)</td>
<td>79.0</td>
<td>81.0</td>
<td>83.0</td>
<td>10%</td>
</tr>
<tr>
<td>Metric</td>
<td>Silver</td>
<td>Gold</td>
<td>Platinum</td>
<td>Weighting</td>
</tr>
<tr>
<td>-------------------------------------------------------------</td>
<td>--------</td>
<td>------</td>
<td>----------</td>
<td>-----------</td>
</tr>
<tr>
<td>Interaction Scores (as reported in the TSE Services Residential Member Satisfaction Tracking Survey Report)</td>
<td>8.61</td>
<td>8.71</td>
<td>8.81</td>
<td>10%</td>
</tr>
</tbody>
</table>

; and

**BE IT FURTHER RESOLVED BY THE BOARD OF DIRECTORS OF THE COOPERATIVE** that the Chief Executive Officer, or his designees, is authorized to take such actions as needed to implement this resolution and communicate the changes to the Cooperative’s employees.
RESOLUTION (ID # 1971)

Subject: NRECA Annual 2012 Membership Dues

Submitted By: Sylvia A. Romero

Department: General Manager

Background:

ATTACHMENTS:
- Pedernales Inv #805299DuesInvoice20121 (PDF)
RESOLUTION (ID # 1971)

NRECA Membership Dues for 2012

RESOLVED BY THE BOARD OF DIRECTORS OF THE COOPERATIVE, that the Membership dues to the National Rural Electric Cooperative Association for 2012 in the amount of $144,567.00 are hereby approved, and the Chief Financial Officer of the Cooperative, or his designee, is hereby authorized and directed to pay those dues pursuant to the invoice duly presented to the Cooperative.
Invoice

Mr. Riley B. Sloan, Jr.
Pedernales Electric Co-op, Inc.
PO Box 305
Junction, TX 76849-0305

Date: 1/9/2012
Invoice #: 805299
Vendor Account #: 931

NRECA MEMBERSHIP DUES
For Member Year Beginning: 2/2/2012
NRECA Distribution Member
2012 Membership Dues (Base Amount) $86,275.00

Plus Allocation of Additional Dues - 2010 Statistical Data Used for Calculations

<table>
<thead>
<tr>
<th>Number of Consumers</th>
<th>Per Consumer</th>
<th>Sub Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>First 10,000 Consumers</td>
<td>X 0.4244</td>
<td>$4,244.00</td>
</tr>
<tr>
<td>Next 40,000 Consumers</td>
<td>X 0.2122</td>
<td>$8,488.00</td>
</tr>
<tr>
<td>Next 184,676 Consumers</td>
<td>X 0.1415</td>
<td>$26,132.00</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$38,864.00</td>
</tr>
</tbody>
</table>

Plus Allocation of CRN Dues

<table>
<thead>
<tr>
<th>Number of Consumers</th>
<th>Per Consumer</th>
<th>Sub Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>First 10,000 Consumers</td>
<td>X 0.21218</td>
<td>$2,122.00</td>
</tr>
<tr>
<td>Next 40,000 Consumers</td>
<td>X 0.10609</td>
<td>$4,244.00</td>
</tr>
<tr>
<td>Next 184,676 Consumers</td>
<td>X 0.07073</td>
<td>$13,062.00</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$19,428.00</td>
</tr>
</tbody>
</table>

Total Consumers: 234,676

Total Membership Dues Payable $144,567.00

NRECA has estimated that 13% of the 2012 budget is allocated to lobbying expenses to which IRC Section 162(2)(3) and 6033(e)(1) as amended apply. Consequently, this portion of your 2012 system dues is not deductible for federal income tax purposes.

Thank you for your continued support.

PLEASE RETURN A COPY OF INVOICE WITH REMITTANCE
Direct payments to: NRECA
PO Box 758777, Baltimore, MD 21275-8777
Payment is due February 8, 2012. Please make check payable to NRECA.

Contributions or gifts to NRECA are NOT deductible as charitable contributions for federal invoice tax purposes. However, payments ARE deductible by members as an ordinary and necessary business expense. NRECA Taxpayer Identification Number: 53-0116145.
Subject: 2011 Cooperative Financial Statements

Submitted By: Frank Skube

Department: Financial Services

Background:

Fiscal Impact:
No expenditure of Cooperative funds required; no expenditures of staff time other than ordinary processing requirements.

ATTACHMENTS:
- DRAFT Pedernales FS 2011 (PDF)
- DRAFT Pedernales Certification letter 2011 (PDF)
- DRAFT Pedernales SAS 114 2011 (PDF)
RESOLUTION (ID # 1980)

2011 Cooperative Financial Statements

BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE COOPERATIVE that the Board of Directors hereby approves the draft Accountants’ Report and Consolidated Financial Statements for fiscal year ending December 31, 2011, in the form attached hereto, as the final Accountants’ Report and Consolidated Financial Statements (“Financial Statements”); and

BE IT FURTHER RESOLVED BY THE BOARD OF DIRECTORS OF THE COOPERATIVE that the Chief Financial Officer of the Cooperative, or his designee, and the Cooperative’s accountants are authorized to publish the Financial Statements as the final and official Financial Statements of the Cooperative for fiscal year ending December 31, 2011.
Pedernales Electric Cooperative, Inc.
Accountants' Report and Consolidated Financial Statements
December 31, 2011 and 2010
Pedernales Electric Cooperative, Inc.
December 31, 2011 and 2010

Contents

Independent Accountants' Report .......................................................................................................................... 1

Consolidated Financial Statements
Balance Sheets ...................................................................................................................................................... 2
Statements of Revenues, Expenses and Patronage Capital .................................................................................. 3
Statements of Cash Flows .................................................................................................................................. 4
Notes to Financial Statements .............................................................................................................................. 6
### Pedernales Electric Cooperative, Inc.
#### Consolidated Balance Sheets
#### December 31, 2011 and 2010

#### Assets

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Utility Plant</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transmission</td>
<td>$ 84,617,222</td>
<td>$ 75,148,280</td>
</tr>
<tr>
<td>Distribution</td>
<td>1,113,737,232</td>
<td>1,083,324,293</td>
</tr>
<tr>
<td>General</td>
<td>137,498,494</td>
<td>119,077,716</td>
</tr>
<tr>
<td><strong>Total utility plant in service</strong></td>
<td>1,335,852,948</td>
<td>1,277,550,289</td>
</tr>
<tr>
<td><strong>Construction work in progress</strong></td>
<td>24,678,464</td>
<td>26,383,778</td>
</tr>
<tr>
<td><strong>Total utility plant</strong></td>
<td>1,360,531,412</td>
<td>1,303,934,067</td>
</tr>
<tr>
<td><strong>Less accumulated depreciation</strong></td>
<td>235,245,369</td>
<td>210,557,101</td>
</tr>
<tr>
<td><strong>Utility plant, net</strong></td>
<td>1,125,286,043</td>
<td>1,093,376,966</td>
</tr>
<tr>
<td><strong>Investments</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subscription and long-term capital certificates and other investments</td>
<td>11,133,932</td>
<td>10,966,331</td>
</tr>
<tr>
<td><strong>Current Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>27,911,348</td>
<td>20,653,201</td>
</tr>
<tr>
<td>Short-term investments – reserve fund, held to maturity</td>
<td>35,000,000</td>
<td>35,000,000</td>
</tr>
<tr>
<td>Short-term investments – contingency fund, held to maturity</td>
<td>14,000,000</td>
<td>13,000,000</td>
</tr>
<tr>
<td>Accounts receivable:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Members</td>
<td>21,458,971</td>
<td>17,088,173</td>
</tr>
<tr>
<td>Other</td>
<td>836,048</td>
<td>13,353,173</td>
</tr>
<tr>
<td>Allowance for uncollectible accounts</td>
<td>(836,469)</td>
<td>(586,513)</td>
</tr>
<tr>
<td>Unbilled revenues</td>
<td>22,335,918</td>
<td>16,070,200</td>
</tr>
<tr>
<td>Materials and supplies</td>
<td>9,841,493</td>
<td>9,821,567</td>
</tr>
<tr>
<td>Prepayments and other current assets</td>
<td>934,974</td>
<td>1,437,472</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>131,482,283</td>
<td>125,837,273</td>
</tr>
<tr>
<td><strong>Deferred Charges</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regulatory assets</td>
<td>80,649,564</td>
<td>42,401,781</td>
</tr>
<tr>
<td>Other</td>
<td>5,234,529</td>
<td>5,817,191</td>
</tr>
<tr>
<td><strong>Total deferred charges</strong></td>
<td>85,884,093</td>
<td>48,218,972</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$ 1,353,786,351</td>
<td>$ 1,278,399,542</td>
</tr>
</tbody>
</table>

See Notes to Consolidated Financial Statements
## Membership Equity and Liabilities

### Membership Equity

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Membership certificates</td>
<td>$ 9,698,540</td>
<td>$ 9,472,390</td>
</tr>
<tr>
<td>Patronage capital</td>
<td>358,813,492</td>
<td>343,620,667</td>
</tr>
<tr>
<td>Other equities</td>
<td>32,902,242</td>
<td></td>
</tr>
<tr>
<td><strong>Total membership equity</strong></td>
<td><strong>401,414,274</strong></td>
<td><strong>353,093,057</strong></td>
</tr>
</tbody>
</table>

### Long-term Debt, Net of Current Maturities

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>711,997,000</td>
<td>732,089,000</td>
</tr>
</tbody>
</table>

### Current Liabilities

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current matures of long-term debt</td>
<td>20,092,000</td>
<td>18,996,000</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>46,115,611</td>
<td>41,778,712</td>
</tr>
<tr>
<td>Accrued taxes</td>
<td>7,297,251</td>
<td>6,378,814</td>
</tr>
<tr>
<td>Accrued interest</td>
<td>4,721,524</td>
<td>4,951,602</td>
</tr>
<tr>
<td>Current portion of postretirement benefit obligations</td>
<td>2,044,264</td>
<td>2,011,937</td>
</tr>
<tr>
<td>Other</td>
<td>7,518,782</td>
<td>10,048,250</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td><strong>87,789,432</strong></td>
<td><strong>84,165,315</strong></td>
</tr>
</tbody>
</table>

### Deferred Credits and Other Noncurrent Liabilities

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Postretirement benefit obligations</td>
<td>143,500,660</td>
<td>102,895,691</td>
</tr>
<tr>
<td>Other deferred credits and noncurrent liabilities</td>
<td>9,084,985</td>
<td>6,156,479</td>
</tr>
<tr>
<td><strong>Total deferred credits and other noncurrent liabilities</strong></td>
<td><strong>152,585,645</strong></td>
<td><strong>109,052,170</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total membership equity and liabilities</strong></td>
<td><strong>$ 1,353,786,351</strong></td>
<td><strong>$ 1,278,399,542</strong></td>
</tr>
</tbody>
</table>
Pedernales Electric Cooperative, Inc.
Consolidated Statements of Revenues, Expenses and Patronage Capital
Years Ended December 31, 2011 and 2010

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Revenues</td>
<td>$ 587,802,245</td>
<td>$ 550,769,939</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchased power</td>
<td>343,050,566</td>
<td>312,275,279</td>
</tr>
<tr>
<td>Operations</td>
<td>25,333,070</td>
<td>23,501,954</td>
</tr>
<tr>
<td>Maintenance</td>
<td>13,272,672</td>
<td>19,244,055</td>
</tr>
<tr>
<td>Administrative and general</td>
<td>57,587,011</td>
<td>60,535,385</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>41,510,817</td>
<td>38,067,545</td>
</tr>
<tr>
<td>Property and other taxes</td>
<td>5,589,565</td>
<td>5,267,876</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>486,343,701</td>
<td>458,892,094</td>
</tr>
<tr>
<td>Operating Income Before Interest Expense</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>101,458,544</td>
<td>91,877,845</td>
</tr>
<tr>
<td>Interest Expense</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest on long-term debt</td>
<td>40,952,281</td>
<td>41,695,734</td>
</tr>
<tr>
<td>Interest charged to construction</td>
<td>(1,228,250)</td>
<td>(1,371,647)</td>
</tr>
<tr>
<td>Other interest</td>
<td>11,866</td>
<td>28,656</td>
</tr>
<tr>
<td>Interest expense, net</td>
<td>39,735,897</td>
<td>40,352,743</td>
</tr>
<tr>
<td>Operating Income</td>
<td>61,722,647</td>
<td>51,525,102</td>
</tr>
<tr>
<td>Other Income (Expense)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest income</td>
<td>743,873</td>
<td>2,155,509</td>
</tr>
<tr>
<td>Capital credits and patronage dividends</td>
<td>1,265,280</td>
<td>1,613,162</td>
</tr>
<tr>
<td>Other</td>
<td>(1,759,316)</td>
<td>(902,193)</td>
</tr>
<tr>
<td>Other income, net</td>
<td>249,837</td>
<td>2,866,478</td>
</tr>
<tr>
<td>Excess of Revenues Over Expenses From Continuing Operations</td>
<td>61,972,484</td>
<td>54,391,580</td>
</tr>
<tr>
<td>Discontinued Operations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loss from discontinued operations</td>
<td>(461,424)</td>
<td>(664,949)</td>
</tr>
<tr>
<td>Excess of Revenues Over Expenses</td>
<td>61,511,060</td>
<td>53,726,631</td>
</tr>
<tr>
<td>Patronage Capital, Beginning of Year</td>
<td>343,620,667</td>
<td>289,894,036</td>
</tr>
<tr>
<td>Authorized retirement patronage capital</td>
<td>(13,415,993)</td>
<td>-</td>
</tr>
<tr>
<td>Discounted distributed capital credits to permanent equity</td>
<td>(32,902,242)</td>
<td>-</td>
</tr>
<tr>
<td>Patronage Capital, End of Year</td>
<td>$ 358,813,492</td>
<td>$ 343,620,667</td>
</tr>
</tbody>
</table>

See Notes to Consolidated Financial Statements
Pedernales Electric Cooperative, Inc.
Consolidated Statements of Cash Flows
Years Ended December 31, 2011 and 2010

<table>
<thead>
<tr>
<th>Operating Activities</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excess of revenues over expenses</td>
<td>$ 61,511,060</td>
<td>$ 53,726,631</td>
</tr>
<tr>
<td>Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provision for uncollectible accounts</td>
<td>1,816,995</td>
<td>1,890,568</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>42,334,150</td>
<td>39,170,176</td>
</tr>
<tr>
<td>Nonoperating income from investment in patronage capital</td>
<td>(1,265,280)</td>
<td>(1,613,162)</td>
</tr>
<tr>
<td>Deferred charges for postretirement medical benefits</td>
<td>49,707,469</td>
<td>16,415,647</td>
</tr>
<tr>
<td>Payments to postretirement medical benefits</td>
<td>(959,536)</td>
<td>(879,730)</td>
</tr>
<tr>
<td>Payments to defined benefit plan</td>
<td>(8,110,637)</td>
<td>(6,235,000)</td>
</tr>
<tr>
<td>Changes in assets and liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Decrease in accounts receivable</td>
<td>6,579,289</td>
<td>15,159,280</td>
</tr>
<tr>
<td>(Increase) decrease in accrued unbilled revenues</td>
<td>(6,265,718)</td>
<td>8,024,222</td>
</tr>
<tr>
<td>(Increase) decrease in materials and supplies</td>
<td>(19,926)</td>
<td>1,527,292</td>
</tr>
<tr>
<td>Decrease (increase) in prepayments and other current assets</td>
<td>502,498</td>
<td>(265,933)</td>
</tr>
<tr>
<td>Increase in deferred charges and other assets</td>
<td>(38,247,783)</td>
<td>(861,647)</td>
</tr>
<tr>
<td>Increase (decrease) in accounts payable</td>
<td>1,549,299</td>
<td>(10,429,857)</td>
</tr>
<tr>
<td>Increase in accrued taxes</td>
<td>918,438</td>
<td>1,115,513</td>
</tr>
<tr>
<td>Decrease in accrued interest</td>
<td>(230,078)</td>
<td>(135,091)</td>
</tr>
<tr>
<td>Increase in consumer deposits</td>
<td>2,787,600</td>
<td>577,816</td>
</tr>
<tr>
<td>Decrease in other current liabilities</td>
<td>2,529,468</td>
<td>(6,042,382)</td>
</tr>
<tr>
<td>Increase in other deferred credit and liabilities</td>
<td>2,928,501</td>
<td>2,053,113</td>
</tr>
<tr>
<td><strong>Net cash provided by operating activities</strong></td>
<td>113,006,873</td>
<td>113,197,456</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Investing Activities</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payments for investment in contingency fund</td>
<td>(1,000,000)</td>
<td>-</td>
</tr>
<tr>
<td>Net additions to utility plant</td>
<td>(73,660,562)</td>
<td>(93,329,844)</td>
</tr>
<tr>
<td>Proceeds from capital-term certificates and other</td>
<td>1,097,679</td>
<td>1,180,892</td>
</tr>
<tr>
<td><strong>Net cash used in investing activities</strong></td>
<td>(73,562,883)</td>
<td>(92,148,952)</td>
</tr>
</tbody>
</table>

See Notes to Consolidated Financial Statements
Pedernales Electric Cooperative, Inc.
Consolidated Statements of Cash Flows (Continued)
Years Ended December 31, 2011 and 2010

See Notes to Consolidated Financial Statements
Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Pedernales Electric Cooperative, Inc. (PEC), is a not-for-profit electric cooperative corporation owned by the members it serves. As of December 31, 2011, PEC served approximately 242,000 members. PEC purchases its electrical power from generating source suppliers and delivers service to consumers through its transmission and distribution systems. PEC's service area extends into 24 counties in the central Texas region.

PEC maintains its general ledger substantially in accordance with the uniform system of accounts prescribed by the Federal Energy Regulatory Commission (FERC).

The rates charged by PEC are determined by the Board of Directors. PEC reviews its rates and fees annually for recovery of costs. Recommended changes are reviewed and approved by the Board as needed. Additional changes are made in the rates to account for changes in purchased power throughout the year.

Principles of Consolidation

The consolidated financial statements include the accounts of PEC and its wholly owned subsidiary, Envision Utility Software Corporation (Envision), collectively referred to as the Cooperative. Effective October 2008, the Board of Directors elected to restructure and dissolve the operations of Envision (see Note 10). All significant intercompany transactions and balances have been eliminated in consolidation.

Utility Plant

Utility plant is stated at original cost, which is the cost when the plant and any subsequent additions are first dedicated to member service. Such cost includes labor, materials, applicable overhead, payroll-related costs and interest on borrowed funds charged to construction.

Maintenance and repairs of plant and replacement of items determined to be less than units of property are charged to expense as incurred. Replacements and betterments of items considered to be units of property are charged to utility plant. When a disposition of transmission or distribution plant is made, the original cost plus cost of removal less salvage value, as well as any gain or loss on the transaction of such plant, is charged to accumulated depreciation. When a disposition of general plant is made, any difference between the remaining net book value and proceeds received is recognized as a nonoperating gain or loss in the accompanying consolidated statements of revenues, expenses and changes in patronage capital.
Depreciation

Depreciation is computed using the straight-line method over the estimated service lives of the assets. Average depreciation rates by plant function for the years ended December 31, 2011 and 2010, are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transmission</td>
<td>2.75%</td>
<td>2.75%</td>
</tr>
<tr>
<td>Distribution</td>
<td>3.04%</td>
<td>3.04%</td>
</tr>
<tr>
<td>General</td>
<td>8.40%</td>
<td>8.42%</td>
</tr>
</tbody>
</table>

Interest Charged to Construction

Interest is capitalized on construction work in progress using a capitalization rate based on PEC's weighted-average borrowing rate on long-term debt. This rate is applied to the current month's average cumulative balance of work in progress and materials.

Investments

PEC's debt securities are classified as held to maturity and are carried at amortized cost. Held-to-maturity securities are those securities that PEC has the ability and intent to hold until maturity. Investments in subscription and capital certificates and patronage capital are recorded at cost plus PEC's share of the organizations' allocated equities. Patronage capital refunds and allocations are reflected in the accompanying consolidated statements of revenues, expenses and patronage capital as capital credits.

Cash and Cash Equivalents

For purposes of reporting cash flows, temporary cash investments purchased with an original maturity of three months or less are considered to be cash equivalents. At December 31, 2011 and 2010, cash equivalents consisted primarily of the National Rural Utilities Cooperative Finance Corporation (NRUCFC) daily fund.

Effective July 21, 2010, the Federal Deposit Insurance Corporation's (FDIC) insurance limits were permanently increased to $250,000.

Pursuant to legislation enacted in 2010, the FDIC will fully insure all noninterest-bearing transaction accounts beginning December 31, 2010 through December 31, 2012, at all FDIC-insured institutions.
Accounts Receivable

Accounts receivable are stated at the amount billed. PEC provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Accounts receivable are ordinarily due 20 days after the issuance of the invoice. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the consumers.

Revenue Recognition

Revenue includes billings derived from rates applied to power consumptions and the recording of an estimate of accrued unbilled revenue. Adjustments are made periodically for rates, fees and the power cost recovery factor when deemed necessary and approved by the Board of Directors.

Unbilled revenue arises when electricity has been delivered but the amounts have not yet been billed due to the timing of the various billing cycles.

Materials and Supplies

Inventory of materials and supplies to be used in construction and maintenance of plant is carried at the lower of average cost or market.

Federal Income Taxes

For federal income tax purposes, PEC is classified as an exempt organization under Section 501(c)(12) of the Internal Revenue Code of 1986. Accordingly, no provision for federal income tax expense on PEC's operations has been made in the accompanying consolidated financial statements.

Income taxes for the subsidiary are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effects of a change in tax rates are recognized in income in the period of the enactment date.

PEC files income tax returns in the federal and state jurisdictions. PEC is no longer subject to federal and state income tax examinations by tax authorities for years before 2008.
Deferred Charges and Credits

PEC recognizes a regulatory asset for the portion of the unfunded status of its pension and other postretirement benefit plans that has not been recognized as a component of net periodic pension and other postretirement benefit costs. Accordingly, no amounts have been recorded in other comprehensive income. The unfunded portion is being amortized into pension and other postretirement benefit costs over the average future service of current active plan participants expected to receive benefits.

Costs incurred with respect to the issuance of bonds (Note 5) have been capitalized in other assets and are being amortized over the terms of the bonds.

Underrecovered or overrecovered cost adjustments for purchased and sold electricity will be collected from or credited to customers in future periods through approved rate adjustments and are reported in other deferred charges and other deferred credits within the accompanying consolidated financial statements. At December 31, 2011 and 2010, PEC had over-recovered costs of approximately $9,024,000 and $6,122,000, respectively, included in the consolidated balance sheets.

Patronage Capital

Patronage capital represents PEC’s accumulated retained excess of revenues over expenses that has been allocated annually to its members. Distributions to members are made at the discretion of the Board of Directors in accordance with the bylaws, subject to the restrictions contained in the long-term debt agreements.

Under certain circumstances the Board may choose to retire patronage capital earlier than PEC’s current approximate thirty-year retirement schedule. In these instances, if the Cooperative retires and pays the net present value of patronage capital to a member or former member before the time the Cooperative anticipates normally retiring and paying the patronage capital, then the residual amount of patronage capital retained by the Cooperative after discounting shall be classified as permanent equity and not distributed to the member(s), unless upon dissolution of the Cooperative.

Under the terms of a settlement agreement in 2007, PEC would retire $23,000,000 in patronage capital by bill credits to current members over a period of five years or as soon thereafter as feasible, subject to any restrictions. The retirement of the capital credits was recorded in 2007 and the settlement was paid in full by December 31, 2010.

Pension and Other Postretirement Benefits

PEC has a defined benefit pension plan covering a majority of its employees. In 2005, the plan was amended to close entry to new participants after January 1, 2006. The benefit is based on years of service and the average of the employee’s highest 36 months of compensation.
PEC also sponsors a health care plan for retirees who satisfy eligibility requirements. The cost of PEC's obligation is actuarially determined based on certain weighted-average assumptions. See further discussion of consolidated financial statement amounts at Note 7.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Long-Lived Assets

PEC evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. For fiscal years 2011 and 2010, the Cooperative determined that no impairment losses needed to be recognized for applicable assets.

Subsequent Events

Subsequent events have been evaluated through __________, 2012, which is the date the consolidated financial statements were available to be issued.

Reclassifications

Certain reclassifications have been made to the 2010 consolidated financial statements to conform to the 2011 consolidated financial statement presentation. These reclassifications had no effect on the 2010 consolidated statements of revenues, expenses and patronage capital.

Note 2: Investments

At December 31, 2011 and 2010, PEC's investments are classified as follows:

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subscription and long-term capital certificates</td>
<td>$ 4,887,296</td>
<td>$ 4,887,296</td>
</tr>
<tr>
<td>Other investments</td>
<td>$ 6,246,636</td>
<td>$ 6,079,035</td>
</tr>
<tr>
<td></td>
<td><strong>$ 11,133,932</strong></td>
<td><strong>$ 10,966,331</strong></td>
</tr>
</tbody>
</table>
Pedernales Electric Cooperative, Inc.
Notes to Consolidated Financial Statements
December 31, 2011 and 2010

Investments
Reserve fund $35,000,000 $35,000,000
Contingency fund 14,000,000 13,000,000

$49,000,000 $48,000,000

Subscription and long-term capital certificates are held by NRUCFC. Maturities of these certificates range from October 2020 to October 2080.

Other investments are comprised of patronage capital and other funds. The investments in patronage capital and other funds are membership fees in organizations that provide services to PEC and are not exchangeable.

Reserve fund and contingency fund consist of held-to-maturity investments in NRUCFC medium-term notes, which mature in 2012. Due to the short-term nature, the cost approximates fair value.

Note 3: Regulatory Assets

Regulatory assets include the amount related to postretirement benefits and the Fuel & Power Cost Recovery Factor (FPCRF) member receivable. As of December 31, 2011 and 2010, the regulatory assets were as follows:

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Postretirement benefits</td>
<td>$77,779,267</td>
<td>$42,401,781</td>
</tr>
<tr>
<td>FPCRF member receivable</td>
<td>2,870,297</td>
<td>-</td>
</tr>
<tr>
<td>Regulatory assets</td>
<td>$80,649,564</td>
<td>$42,401,781</td>
</tr>
</tbody>
</table>

Postretirement benefits are further discussed at Note 7.

FPCRF member receivable is the under-recovered costs adjustments for purchased and sold electricity that will be collected from its members in future periods through approved rate adjustments.

Note 4: Membership Equity

Patronage capital assigned and assignable at December 31, 2011 and 2010, is as shown on the following page.
PEC held $32,902,242 in permanent equity as of December 31, 2011. PEC had no permanent equity at December 31, 2010.

PEC’s bylaws provide that amounts received by PEC in excess of costs and expenses shall, insofar as permitted by law, (a) be used to offset any losses incurred during the current or any prior fiscal year and, (b) to the extent not needed for that purpose, be allocated to its patrons on a patronage basis.

The changes in the membership certificates balance of $226,150 and $150,973 for the years ended December 31, 2011 and 2010, respectively, resulted from net increases in the charges for new members and refunds to disconnected members in those years.

Note 5: Long-term Debt

At December 31, 2011 and 2010, long-term debt consisted of the following:

<table>
<thead>
<tr>
<th>Bond Description</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior Mortgage Bonds, Series 1993; 8.55%; due 2020,</td>
<td>$ 65,000,000</td>
<td>$ 65,000,000</td>
</tr>
<tr>
<td>interest payable semiannually on May 15 and November 15; principal payments begin 2017</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Senior Mortgage Bonds, Series 1993; 8.85%; due 2016,</td>
<td>15,000,000</td>
<td>15,000,000</td>
</tr>
<tr>
<td>interest payable semiannually on May 15 and November 15; principal payments begin 2015</td>
<td></td>
<td></td>
</tr>
<tr>
<td>First Mortgage Bonds, 1995 Series A; 7.55%; due 2015,</td>
<td>43,789,000</td>
<td>53,270,000</td>
</tr>
<tr>
<td>interest payable semiannually on May 15 and November 15; principal payments began 1996</td>
<td></td>
<td></td>
</tr>
<tr>
<td>First Mortgage Bonds, 2002 Series A; 4.093%; due 2012,</td>
<td>9,900,000</td>
<td>19,415,000</td>
</tr>
<tr>
<td>interest payable semiannually on May 15 and November 15; principal payments began 2003</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
First Mortgage Bonds, 2002 Series A; 5.952%; due 2022, interest payable semiannually on May 15 and November 15; principal payments begin 2013
$ 128,900,000 $ 128,900,000

First Mortgage Bonds, 2002 Series A; 6.202%; due 2032, interest payable semiannually on May 15 and November 15; principal payments begin 2023
239,500,000 239,500,000

Mortgage notes payable and equity certificate loans with NRUCFC at fixed and variable rates ranging from 3.33% to 4.95%, payable interest only through 2046. Currently, PEC has approximately $70,000,000 in funds available to borrow which mature no later than 35 years from the date of draw
230,000,000 230,000,000

Less current maturities
20,092,000 18,996,000

Long-term debt balance
$ 711,997,000 $ 732,089,000

The mortgage bonds were issued under the indenture. All of these bonds are secured equally and ratably by a lien on substantially all of the assets of the Cooperative.

The indenture to the agreement with the Bank of New York requires PEC to maintain rates that will produce an amount of net revenues at least equal to 1.15 times the aggregate debt service for each fiscal year as defined by the indenture. Net revenue is defined in the indenture and, in general, is determined before depreciation, the noncash expense portion of postretirement medical benefits and debt service requirements. PEC was in compliance with these requirements at December 31, 2011 and 2010.

During 2010, PEC’s bond rating was upgraded to AA-.

Aggregate maturities of long-term debt for PEC as of December 31, 2011, are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>$ 20,092,000</td>
</tr>
<tr>
<td>2013</td>
<td>20,782,000</td>
</tr>
<tr>
<td>2014</td>
<td>22,178,000</td>
</tr>
<tr>
<td>2015</td>
<td>23,682,000</td>
</tr>
<tr>
<td>2016</td>
<td>24,875,000</td>
</tr>
<tr>
<td>Thereafter</td>
<td>620,480,000</td>
</tr>
</tbody>
</table>

$ 732,089,000
Note 6: Line of Credit

PEC has a perpetual line of credit (LOC) agreement with NRUCFC that provides for borrowings of up to $100,000,000. PEC had no outstanding balance at December 31, 2011 and 2010. The LOC requires the Cooperative to pay down the balance to zero annually and automatically renews unless either party gives a 90-day notice. Interest varies and was 3.20 percent and 4.25 percent at December 31, 2011 and 2010, respectively.

Note 7: Benefit Plans

PEC has a money purchase plan with a 401(k) feature (the 401(k) Plan). The cost of the 401(k) Plan is a maximum of 6 percent of the participating employees' base annual salaries for employees eligible to participate in the defined benefit pension plan. For employees not eligible for the defined benefit pension plan, the 401(k) Plan cost is a maximum of 10 percent of the participating employees' annual salaries. These costs are funded each pay period as accrued. Cooperative contributions to the 401(k) Plan (net of forfeitures) were $3,354,272 and $3,203,438 in 2011 and 2010, respectively.

PEC has a defined benefit retirement plan covering eligible participants. The cost of the plan is determined by an independent actuary and is funded in amounts sufficient to meet the minimum funding requirements under applicable regulations.

PEC also provides medical and dental benefits to eligible retirees pursuant to its postretirement medical plan. PEC’s funding policy is to make contributions necessary to fund current costs.

The measurement date used to determine retirement and the other postretirement benefit measures for the retirement and the postretirement medical plan is December 31.

The following table sets forth the plans’ benefit obligations, fair value of plan assets and funded status at December 31, 2011 and 2010 (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>Retirement Benefits</th>
<th></th>
<th>Postretirement Medical Benefits</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2011</td>
<td>2010</td>
<td>2011</td>
<td>2010</td>
</tr>
<tr>
<td>Benefit obligations</td>
<td>$169,114</td>
<td>$134,214</td>
<td>$77,107</td>
<td>$65,791</td>
</tr>
<tr>
<td>Fair value of plan assets</td>
<td>100,676</td>
<td>95,097</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Funded status</td>
<td>$ (68,438)</td>
<td>$ (39,117)</td>
<td>$ (77,107)</td>
<td>$ (65,791)</td>
</tr>
</tbody>
</table>
Pedernales Electric Cooperative, Inc.
Notes to Consolidated Financial Statements
December 31, 2011 and 2010

Amounts recognized in the balance sheets consist of postretirement benefit obligations, current and noncurrent:

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Postretirement</td>
<td>(68,438)</td>
<td>(39,117)</td>
<td>(77,107)</td>
<td>(65,791)</td>
</tr>
<tr>
<td>Medical Benefits</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retirement Benefits</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regulatory asset</td>
<td>64,438</td>
<td>34,760</td>
<td>13,341</td>
<td>7,642</td>
</tr>
<tr>
<td>Net amount recognized</td>
<td>(4,000)</td>
<td>(4,357)</td>
<td>(63,766)</td>
<td>(58,149)</td>
</tr>
</tbody>
</table>

Amounts recognized in regulatory assets consist of (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net actuarial (gain) loss</td>
<td>$64,724</td>
<td>$35,083</td>
<td>$8,614</td>
<td>$(267)</td>
</tr>
<tr>
<td>Prior service cost</td>
<td>(286)</td>
<td>(323)</td>
<td>4,131</td>
<td>7,113</td>
</tr>
<tr>
<td>Transition obligation</td>
<td></td>
<td></td>
<td>596</td>
<td>796</td>
</tr>
<tr>
<td></td>
<td>$64,438</td>
<td>$34,760</td>
<td>$13,341</td>
<td>$7,642</td>
</tr>
</tbody>
</table>

The accumulated benefit obligation for the retirement plan was $148,331,394 and $114,621,307 at December 31, 2011 and 2010, respectively.

The following table sets forth changes in plan assets and benefit obligations recognized in regulatory assets (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amounts arising during the year:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net loss</td>
<td>$32,123</td>
<td>$1,019</td>
<td>$8,881</td>
<td>$5,949</td>
</tr>
<tr>
<td>Prior service credit</td>
<td></td>
<td>(1,120)</td>
<td>(1,477)</td>
<td>-</td>
</tr>
<tr>
<td>Amounts reclassified as components of net periodic benefit cost of the year:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net (gain) loss</td>
<td>2,481</td>
<td>2,566</td>
<td>-</td>
<td>(58)</td>
</tr>
<tr>
<td>Net prior service cost (credit)</td>
<td>(37)</td>
<td>329</td>
<td>1,505</td>
<td>1,571</td>
</tr>
<tr>
<td>Net transition asset</td>
<td></td>
<td></td>
<td>200</td>
<td>200</td>
</tr>
</tbody>
</table>
The following table sets forth the plan's benefit cost, employer contributions and benefits paid for the fiscal years ended December 31, 2011 and 2010 (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>Retirement Benefits</th>
<th></th>
<th>Postretirement Medical Benefits</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2011</td>
<td>2010</td>
<td>2011</td>
<td>2010</td>
</tr>
<tr>
<td>Benefit cost</td>
<td>$7,753</td>
<td>$8,812</td>
<td>$6,576</td>
<td>$6,362</td>
</tr>
<tr>
<td>Employer contribution</td>
<td>8,111</td>
<td>6,235</td>
<td>1,040</td>
<td>950</td>
</tr>
<tr>
<td>Benefits paid</td>
<td>4,443</td>
<td>3,957</td>
<td>1,040</td>
<td>950</td>
</tr>
</tbody>
</table>

The estimated net loss and prior service cost (credit) for the retirement benefits that will be amortized from regulatory asset into net periodic benefit cost over the next fiscal year are approximately $5,795,000 and $(37,000), respectively. The prior service cost and transition obligation for the postretirement medical benefits that will be amortized from regulatory asset into net periodic benefit cost over the next fiscal year are approximately $1,273,000 and $200,000, respectively.

Weighted-average assumptions used to determine benefit obligations at December 31, 2011 and 2010, were as follows:

<table>
<thead>
<tr>
<th></th>
<th>Retirement Benefits</th>
<th></th>
<th>Postretirement Medical Benefits</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2011</td>
<td>2010</td>
<td>2011</td>
<td>2010</td>
</tr>
<tr>
<td>Discount rate</td>
<td>4.25%</td>
<td>5.50%</td>
<td>4.35%</td>
<td>5.55%</td>
</tr>
<tr>
<td>Rate of compensation increase</td>
<td>3.49%</td>
<td>3.83%</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Weighted-average assumptions used to determine net benefit cost for 2011 and 2010 were as follows:

<table>
<thead>
<tr>
<th></th>
<th>Retirement Benefits</th>
<th></th>
<th>Postretirement Medical Benefits</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2011</td>
<td>2010</td>
<td>2011</td>
<td>2010</td>
</tr>
<tr>
<td>Discount rate</td>
<td>5.50%</td>
<td>6.00%</td>
<td>5.55%</td>
<td>6.00%</td>
</tr>
<tr>
<td>Expected long-term rate of return on plan assets</td>
<td>6.50%</td>
<td>6.50%</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Rate of compensation increase</td>
<td>3.83%</td>
<td>3.85%</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

PEC's overall expected long-term rate of return on assets is 6.5 percent. The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The rate is based exclusively on historical returns without adjustments.
For measurement purposes, a 9 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 2011. The rate was assumed to decrease gradually to 5 percent through 2019 and remain at that level thereafter.

Plan Assets

The weighted-average asset allocation of PEC's pension benefits at December 31, 2011 and 2010, was as follows:

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt securities</td>
<td>44%</td>
<td>48%</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>15%</td>
<td>9%</td>
</tr>
<tr>
<td>Equity securities</td>
<td>41%</td>
<td>43%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

PEC's investment policies and strategies for the retirement benefits plan do not use target allocations for the individual asset categories. PEC's investment goals are to maximize the rate of current income consistent with maximization of principal safety. Its funding policy permits investments in U.S. government obligations with short-term to intermediate-term maturities. The trustee has been directed to invest assets in a manner that will give proper recognition to the monthly liquidity needs of the plan.

The following is a description of the valuation methodologies used for plan assets measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of plan assets pursuant to the valuation hierarchy.

Where quoted market prices are available in an active market, plan assets are classified with Level 1 of the valuation hierarchy. Level 1 plan assets include a money market fund, commercial paper, short-term investments, common stocks, government and agencies and mutual funds. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of plan assets with similar characteristics or discounted cash flows. Level 2 plan assets include bonds, limited liability partnerships, credit default swaps and common-collective trust funds. In certain cases where Level 1 or Level 2 inputs are not available, plan assets are classified within Level 3 of the hierarchy. There were no Level 3 investments at December 31, 2011 and 2010.

The fair values of PEC's plan assets at December 31, 2011 and 2010, by asset category are as shown on the following page (in thousands).
Pedernales Electric Cooperative, Inc.
Notes to Consolidated Financial Statements
December 31, 2011 and 2010

| Fair Value Measurements Using | Quoted Prices in Active Markets for Significant Other Observable Significant Unobservable |
|-----------------------------|---------------------------------|---------------------------------|---------------------------------|
|                             | Identical Assets (Level 1) | Inputs (Level 2) | Inputs (Level 3) |

2011:
- Money market fund $15,091 
- Common stocks 25,861 
- Government and agencies 9,575 
- Mutual funds (A) 29,351 
- Bonds 5,483 
- Limited liability partnerships 8,946 
- Other short-term investments 53 
- Common-collective trust funds 6,316 

|                       | Fair Value | Quoted Prices in Active Markets for Significant Other Observable Significant Unobservable |
|-----------------------|------------|---------------------------------|---------------------------------|---------------------------------|
|                       | Identical Assets (Level 1) | Inputs (Level 2) | Inputs (Level 3) |

2010:
- Money market fund $8,413 
- Commercial paper 150 
- Common stocks 26,698 
- Government and agencies 9,533 
- Mutual funds (A) 30,776 
- Bonds 5,439 
- Limited liability partnerships 8,206 
- Other short-term investments 20 
- Common-collective trust funds 5,862 

|                       | Fair Value | Quoted Prices in Active Markets for Significant Other Observable Significant Unobservable |
|-----------------------|------------|---------------------------------|---------------------------------|---------------------------------|
|                       | Identical Assets (Level 1) | Inputs (Level 2) | Inputs (Level 3) |

(A) Approximately 43 percent of the mutual funds are invested in both U.S. and international bond markets. The plan's remaining 57 percent is focused on U.S. fixed income corporate securities and U.S. and international stocks.

**Cash Flows**

The estimated 2012 plan year minimum required contribution for the plan is $5,833,000.

The benefits expected to be paid from the pension plan in each year from 2012 through 2016 are approximately $4,831,000, $6,957,000, $7,222,000, $7,541,000 and $7,927,000, respectively. The aggregate benefits expected to be paid in the five years from 2017 through 2021 are approximately $46,884,000. The expected benefits are based on the same assumptions used to measure PEC’s benefit obligation at December 31 and include estimated future employee service.
The net benefits expected to be paid from the postretirement medical benefit plan in each year from 2012 through 2016 are approximately $2,044,000, $2,637,000, $2,782,000, $3,016,000 and $3,181,000, respectively. The aggregate benefits expected to be paid in the five years from 2017 through 2021 are approximately $19,477,000. The expected benefits are based on the same assumptions used to measure PEC’s benefit obligation at December 31 and include estimated future employee service.

**Note 8: Fair Value of Financial Instruments**

PEC has no material assets or liabilities measured in the balance sheets at fair value on a recurring or nonrecurring basis. The following table presents the carrying amounts and estimated fair values of PEC’s financial instruments that are carried in the accompanying consolidated balance sheets at other than fair value at December 31, 2011 and 2010. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th></th>
<th>2010</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Carrying Amount</td>
<td>Fair Value</td>
<td>Carrying Amount</td>
<td>Fair Value</td>
</tr>
<tr>
<td>Assets:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$27,911,348</td>
<td>$27,911,348</td>
<td>$20,653,201</td>
<td>$20,653,201</td>
</tr>
<tr>
<td>Short-term investments</td>
<td>49,000,000</td>
<td>49,000,000</td>
<td>48,000,000</td>
<td>48,000,000</td>
</tr>
<tr>
<td>Liabilities:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term debt</td>
<td>732,089,000</td>
<td>689,681,448</td>
<td>751,085,000</td>
<td>729,086,321</td>
</tr>
</tbody>
</table>

The carrying amounts shown in the table are included in the accompanying consolidated balance sheets under the indicated captions.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

**Cash and Cash Equivalents**

The carrying amounts approximate fair value because of the short maturity of these instruments.

**Short-term Investments**

Short-term investments consist of investments in NRUCFC medium-term notes which mature in 2012. The carrying amounts approximate fair value because of the short maturity of these instruments.
Subscriptions and Long-term Capital Certificates

PEC considers NRUCFC and other associated organizations' certificates to be a condition of borrowing and patronage capital certificates to be directly related to borrowing. As such, PEC management believes the fair value of these assets is not determinable and they are reflected at their carrying amount.

Long-term Debt

Interest rates that are currently available to PEC for issuance of debt with similar terms and maturities are used to estimate fair value for its debt issues that are not quoted on an exchange.

Note 9: Commitments and Contingencies

Power Supply Contracts

PEC entered into contracts for the purchase and delivery of electric energy to satisfy its electric energy requirements. In 2011 and 2010, PEC purchased electric energy from the Lower Colorado River Authority (LCRA) and AEP Energy Partners (AEPEP). The LCRA was the primary wholesale electric energy supplier while AEPEP supplied electric energy to serve a portion of the electric energy requirements for PEC's delivery points outside of the LCRA's service territory. All of the electric energy purchased by PEC is procured through term contracts of varying durations. As these terms expire they may or may not be replaced with new agreements.

Transmission Lease Contracts

In 1990, PEC entered into an agreement with LCRA to lease its transmission facilities to LCRA. Either party may terminate the lease upon written 5-year notice of the intent to terminate.

Litigation

PEC is a plaintiff and defendant in actions that are in various stages of litigation and investigation. Due to the inherent uncertainty of litigation, management believes it is reasonably possible that PEC may suffer a loss with respect to one or more of the actions.

However, after reviewing with counsel all legal and administrative actions pending or threatened and insurance coverage provided, management believes that liability resulting from the ultimate resolution of these matters will not be material.

On the following page is a summary regarding final resolution in a previous lawsuit.

Under the terms of a settlement agreement dated April 8, 2008, PEC commenced the retirement of $23,000,000 in patronage capital by bill credits to then-current members over a period of five years, or as soon thereafter as feasible, subject to any restrictions imposed by any lending institutions as those restrictions are reflected in any agreements to which PEC is a party and the maintenance of PEC's financial integrity. PEC in December 2010 retired over $14 million in patronage capital and thereby retired the full $23,000,000. In June 2011, the Travis County District Court entered an order regarding full and final satisfaction of judgment on this matter.

Below is a summary of a reportable contingency.

Damage to Property of Others

In September 2011, a fire erupted in a drought-stricken portion of PEC's service territory, and the fire caused damage to numerous buildings and vegetation. The responsible county fire marshal has not released a report determining the cause of the fire, and the investigation is ongoing. However, PEC has been notified by counsel for some insurers of landowners who suffered loss that they believe that PEC is at fault. No estimate of damages can be made at this time. To date, PEC has not been sued for damages by any party, and PEC continues to work with the county fire marshal and others to investigate the cause of the fire.

Note 10: Discontinued Operations

During 2008, the Cooperative developed a plan to restructure and dissolve the operations of its wholly owned subsidiary, Envision, because the subsidiary no longer conformed to the current strategic objectives of management. Envision had no significant revenues and losses were approximately $464,000 and $665,000 for 2011 and 2010, respectively.
Audit Committee
Pedernales Electric Cooperative, Inc.
Johnson City, Texas

We have audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated financial statements of Pedernales Electric Cooperative, Inc. (PEC), for the year ended December 31, 2011, and have issued our report thereon dated April __, 2012. During the year ended December 31, 2011, PEC received no long-term loan fund advances from the National Rural Utilities Cooperative Finance Corporation (NRUCFC). During our audit, we tested construction work orders and other plant accounting records, as we deemed necessary, to express an opinion on the consolidated financial statements. In connection with our audit, nothing came to our attention that caused us to believe that NRUCFC loan funds were expended for purposes other than those contemplated in the loan agreements on such loans. However, our audit was not directed toward obtaining knowledge of such noncompliance.

This report is intended solely for the information and use of management, the Audit Committee, the Board of Directors and others within PEC and NRUCFC, and is not intended to be, and should not be, used by anyone other than these specified parties.

April __, 2012
Audit Committee, Board of Directors
and Management
Pedernales Electric Cooperative, Inc.
Johnson City, Texas

As part of our audit of the consolidated financial statements of Pedernales Electric Cooperative, Inc. (PEC), as of and for the year ended December 31, 2011, we wish to communicate the following to you.

**Audit Scope and Results**

**Auditor's Responsibility Under Auditing Standards Generally Accepted in the United States of America**

An audit performed in accordance with auditing standards generally accepted in the United States of America is designed to obtain reasonable, rather than absolute, assurance about the financial statements. In performing auditing procedures, we establish scopes of audit tests in relation to the financial statements taken as a whole. Our engagement does not include a detailed audit of every transaction. Our engagement letter more specifically describes our responsibilities.

These standards require communication of significant matters related to the financial statement audit that are relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. Such matters are communicated in the remainder of this letter or have previously been communicated during other phases of the audit. The standards do not require the auditor to design procedures for the purpose of identifying other matters to be communicated with those charged with governance.

An audit of the consolidated financial statements does not relieve management or those charged with governance of their responsibilities. Our engagement letter more specifically describes your responsibilities.

**Qualitative Aspects of Significant Accounting Policies and Practices**

**Significant Accounting Policies**

PEC's significant accounting policies are described in Note 1 of the audited consolidated financial statements.

**Alternative Accounting Treatments**

No matters are reportable.
Management Judgments and Accounting Estimates

Accounting estimates are an integral part of financial statement preparation by management, based on its judgments. The following areas involve significant estimates for which we are prepared to discuss management’s estimation process and our procedures for testing the reasonableness of those estimates:

- Unbilled revenue
- Allowance for doubtful accounts
- Depreciation
- Defined benefit and postretirement
- Regulatory assets and liabilities

Financial Statement Disclosures

The following area involves particularly sensitive financial statement disclosures for which we are prepared to discuss the issues involved and related judgments made in formulating those disclosures:

- Settlement of legal matters

Audit Adjustments

No matters are reportable.

Auditor’s Judgments About the Quality of PEC’s Accounting Principles

No matters are reportable.

Disagreements With Management

No matters are reportable.

Consultation With Other Accountants

During our audit, we became aware that management had consulted with other accountants about the following auditing or accounting matter:

- Bridgepoint Services – Internal Audit Services

Significant Issues Discussed With Management

No matters are reportable.
Difficulties Encountered in Performing the Audit

No matters are reportable.

Other Material Written Communications

Listed below are other material written communications between management and us related to the audit:

- Management representation letter (attached)
- National Rural Utilities Cooperative Finance Corporation certification

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements of PEC as of and for the year ended December 31, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered PEC's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of PEC's internal control. Accordingly, we do not express an opinion on the effectiveness of PEC's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified.

A deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements of PEC's consolidated financial statements on a timely basis. A deficiency in design exists when a control necessary to meet a control objective is missing or an existing control is not properly designed so that, even if the control operates as designed, a control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of PEC's consolidated financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
We did not observe any matters that would be considered deficiencies, significant deficiencies or material weaknesses.

Other Matters

We observed the following matters and offer these comments and suggestions with respect to matters that came to our attention during the course of the audit of the consolidated financial statements. Our audit procedures are designed primarily to enable us to form an opinion on the consolidated financial statements and, therefore, may not bring to light all weaknesses in policies and procedures that may exist. However, these matters are offered as constructive suggestions for the consideration of management as part of the ongoing process of modifying and improving accounting controls and the financial and administrative practices and procedures. We can discuss these matters further at your convenience and may provide implementation assistance for changes or improvements if you require.

Accounting Policies and Procedures

An accounting policies and procedures manual is being developed. Policies and procedures are currently being followed; however, they are informal in nature. We suggest formalized accounting policies and procedures be designed and written and, at a minimum, be reviewed and approved by management.

Utility Plant

We recommend PEC consider having a depreciation study performed to ensure the utility plan is being depreciated in line with rates charged. This can be done with the next rate study performed by outside consultants.

During testing, we noted one asset was not recorded properly and the depreciation was not calculated in accordance to company policy. We recommend PEC ensure depreciation is checked for accuracy upon posting of new additions.

Potential Changes to Method of Accounting for Leases Under Accounting Principles Generally Accepted in the United States of America (GAAP)

In August 2010, the Financial Accounting Standards Board (FASB) issued its proposed Accounting Standards Update, Leases (Topic 840). This exposure draft was issued simultaneously with a nearly identical exposure document issued by the International Accounting Standards Board (IASB). Together, these documents represent the next step in a process likely to lead to a new accounting standard that substantially changes the existing standards on recognition and disclosure of leases by both lessors and lessees. The two accounting boards took on a project to address lease accounting for many reasons with the expectation that the final product will lead to further convergence of International Financial Reporting Standards (IFRS) and U.S. GAAP.

The Boards tentatively agreed to adopt an approach to lessee accounting that would require the lessee to recognize an asset representing its right to use the leased item and a liability for its obligation to pay rentals. Under the proposed guidance, essentially all leases would result in recording an asset and a
liability. This treatment differs from current U.S. GAAP, which separates leases into capital leases and operating leases. Views on a number of topics in the initial exposure draft changed during deliberations by the Boards. As a result, in July 2011, the Boards agreed to re-expose their revised proposals, allowing interested parties with an opportunity to comment on revisions that the boards have undertaken since the publication of the original exposure draft in August 2010. These revisions include changes to presentation and disclosure requirements for lessees, accounting for leases with less than a one-year term, accounting for lease payments that depend on an index or a rate, accounting for embedded derivatives in lease contracts, and changes to lessor accounting.

We encourage you to continue to monitor the proposed changes to the accounting for leases in order to evaluate the potential impacts on your consolidated financial statements. Accounting for all leases as assets and liabilities as proposed could impact key financial ratios, measurement of net income or changes in net assets and other measurements. Changes in the accounting for leases may result in the need to revise debt covenants and other impacted contractual provisions with lenders, vendors, employees, regulators, etc.

While the effective date of a final standard has not been determined, it likely will not be effective for public companies before 2015 and nonpublic companies would likely be one year later.

Potential Changes to Revenue Recognition Under GAAP

In November 2011, the FASB and the IASB issued a revised exposure draft, Revenue from Contracts with Customers, which is open for public comment through March 13, 2012. The original exposure draft was issued in June 2010 and received significant input from the affected industries, and thus key revisions and clarifications were made to the original draft.

The objective of the proposed guidance is to establish principles to provide useful information to users of financial statements about the nature, timing and uncertainty of revenue and cash flows arising from contracts with customers which is applicable to most industries.

Two key aspects of the revised exposure draft which are unchanged from the original draft are the core principle and a five-step process for applying the core principle. According to the core principle, an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount reflecting the consideration to which the entity expects to be entitled in exchange for those goods or services.

The five-step application is as follows:

  Step 1: Identify the contract with a customer
  
  Step 2: Identify the separate performance obligations in the contract
  
  Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the separate performance obligations in the contract

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The accounting for revenue recognition in commercial industries may be affected in a variety of circumstances by the guidance in the revised exposure draft, such as contracts that include long-term manufacturing as well as a service, such as installation. Under the proposed guidance, a determination would need to be made as to whether the sale of the product and the installation constitute separate performance obligations. In this scenario, separate performance obligations may exist if PEC regularly sells the product and installation service separately.

Management’s judgment will be required to determine the point in time in which the performance obligation is satisfied. Other key components addressed in this guidance include determination of transfer of control of products, recognition of sales of products delivered over a period of time, warranties, variable consideration such as discounts or incentives, consignment sales and bill-and-hold arrangements. In addition, potential changes in collectibility measurements and disclosure as a separate line item adjacent to corresponding revenue are proposed.

A final standard on this topic is not expected to be effective earlier than annual reporting periods beginning on or after January 1, 2015. Still, because the final standard is expected to be applied retrospectively, any long-term contracts which could have performance extending into a prior comparative reporting period, revenue from such contracts would have to be remeasured on those contracts following the guidance in the final standard. For most companies, this means they will have to begin their evaluation of how to apply the new standard at least two years prior to the ultimate effective date.

As a reminder, until a final standard is issued, any positions contained within the exposure draft are still susceptible to change.

This communication is intended solely for the information and use of management, the Audit Committee, the Board of Directors and others within PEC, and is not intended to be, and should not be, used by anyone other than these specified parties.

Houston, Texas
April __, 2012
RESOLUTION (ID # 1978)

Subject: Health and Dental Insurance Renewal

Submitted By: JD Remling

Department: Human Resources

Background:

Fiscal Impact:

Expenditure of Cooperative funds estimated in the amount of $11.3 million (currently included in the Cooperative’s 2012 operating budget); this resolution is not expected to require the expenditure of staff time above the normal work requirements.
RESOLUTION (ID # 1978)

Health and Dental Insurance Renewal

BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE COOPERATIVE that employee health and dental insurance policies of the Cooperative be entered into with the insurance provider and upon the terms and conditions presented to the Board for review during Executive Session at its special monthly meeting of committees held on April 9, 2012; and

BE IT FURTHER RESOLVED BY THE BOARD OF DIRECTORS OF THE COOPERATIVE that the Chief Executive Officer, or his designee, is authorized to take such actions as needed to implement this resolution.
RESOLUTION (ID # 1979)

Subject: Rates and Resources Council

Submitted By: Dale Jones

Department: Power Supply

Background:

Fiscal Impact:

Fiscal Impact: It is estimated that joining the Council will result in a fiscal impact to the Cooperative of approximately $10,000 in 2012 (currently included in the Cooperative’s 2012 operating budget); approximately 80 hours of staff time will be expended on Council matters.
RESOLUTION (ID # 1979)

Rates and Resources Council

BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE COOPERATIVE that the Chief Executive Officer of the Cooperative, or his designee, be and is hereby authorized as a duly authorized officer or agent of the Cooperative, to prepare, execute, acknowledge as appropriate, and deliver any agreement, certificates, consent, affidavits, and other instruments of any nature necessary or appropriate to create and organize the Rates and Resources Council, as a Texas nonprofit corporation (the “Council”), in each case in such form and containing such terms and conditions as such officer or agent may in his or her reasonable discretion deem necessary, appropriate, or desirable; and

BE IT FURTHER RESOLVED BY THE BOARD OF DIRECTORS OF THE COOPERATIVE that the Cooperative is hereby authorized to become a member of the Council and to exercise all of the powers and incur all of the obligations of a member of the Council as set forth in the Council's certificate of formation and by-laws, and the Chief Executive Officer of the Cooperative, or his designee, be and is hereby authorized to take any actions as are necessary or desirable to become a member of the Council as set forth in its certificate of formation and by-laws; and

BE IT FURTHER RESOLVED BY THE BOARD OF DIRECTORS OF THE COOPERATIVE that the Chief Executive Officer of the Cooperative, or his designee, be and is hereby authorized as a duly authorized officer or agent of the Cooperative, for and in the name and on behalf of the Cooperative, to do any and all acts deemed by such officer in such officer's judgment to be necessary or appropriate in the best interests of the Cooperative to give effect to the foregoing.
Subject: Insurance Renewal

Submitted By: RB Sloan

Department: General Manager

Background:

Fiscal Impact:

Expenditure of Cooperative funds estimated in the amount of $1,852,720; expenditures of staff time estimated at 80 hours as part of their normal work activities.
RESOLUTION (ID # 1986)

Authorization of Insurance Renewals

BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE COOPERATIVE that the insurance policies of the Cooperative for workers’ compensation, general liability, business auto, umbrella and excess umbrella, inland marine, property/equipment breakdown, information security & privacy, pollution, commercial crime/ERISA, and notary errors & omissions be renewed on the terms and conditions and with the carriers as recommended to and discussed at the Special Board Meeting of Committees on April 9, 2012; and

BE IT FURTHER RESOLVED BY THE BOARD OF DIRECTORS OF THE COOPERATIVE that the Chief Executive Officer, the General Counsel, or their respective designees are authorized to take such actions as needed to implement this resolution.
RESOLUTION (ID # 1981)

Subject: Microsoft Server Support and Maintenance Agreement

Submitted By: Luis Garcia

Department: Corporate Services

Background:

Fiscal Impact:
Expenditure of Cooperative funds estimated in the amount as presented in Executive Session.
RESOLUTION (ID # 1981)

Microsoft Server Support and Maintenance Agreement Renewal

BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE COOPERATIVE that the Chief Executive Officer, or his designees, be and each is hereby authorized as a duly authorized officer or agent of the Cooperative, to negotiate, execute and deliver an agreement with Microsoft Corporation for a term of three years for support and maintenance of the SQL server databases, with such terms and conditions as negotiated and agreed to by the Chief Executive Officer of the Cooperative or his designees in their reasonable discretion.

BE IT FURTHER RESOLVED that the Chief Executive Officer or his designee is authorized to take such actions as needed to implement this resolution.
Subject: Amendment to the Delegation of Authority

Submitted By: Frank Skube

Department: Financial Services

Background:

Fiscal Impact:
No expenditure of Cooperative funds required; no expenditures of staff time other than ordinary processing requirements.

ATTACHMENTS:
- Delegation Authority _Amend_ version 2 Markups 2012-4-16 (PDF)
- Delegation Authority _Amend_ version 2-2012-4-16 (PDF)
RESOLUTION (ID # 1982)

Amendment to the Delegation of Authority

BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE COOPERATIVE that the Cooperative amend the Authority and Responsibilities Policy to read as set forth in the attachment hereto; and

BE IT FURTHER RESOLVED BY THE BOARD OF DIRECTORS OF THE COOPERATIVE that the Chief Executive Officer, or his designees, is hereby authorized to take such actions as needed to implement this resolution.
PEC BOARD POLICY

AUTHORITY AND RESPONSIBILITIES

BOARD ADOPTED: September 15, 2008


OBJECTIVES:

This policy defines the relationship between the Board of Directors and the management of PEC through the description of responsibilities and expectations and through the establishment of guidelines for the delegation of certain powers and duties. To the extent, if any, this policy conflicts with the PEC Bylaws, the Bylaws control. To the extent this policy conflicts with prior policy, this policy controls.

POLICY:

Responsibilities of the Board of Directors

The Board of Directors (Board) will establish the overall goals and objectives of PEC, review them on an ongoing basis and issue Board policies setting forth desired direction of management actions to attain such goals and objectives.

The Board will consider and establish policies in the best interest of the PEC membership and will retain management personnel with the capabilities to accomplish related policy goals. The Board will faithfully discharge its public trust by conducting its affairs in an ethical and sound business manner consistent with the fiduciary duties of the Directors. The Board and the Directors serving thereon will not direct the policies and actions of PEC from perspectives of private gain or personal advantage.

The Board will exercise reasonable diligence to ensure that the delegations to the General Manager provided for in this policy statement are properly implemented.

The Board will articulate clear and coherent goals and statements of its expectations through its policies and plans. The General Manager is responsible for day-to-day management of the organization with a view to the fulfillment of these goals and expectations.

Authority Reserved to the Board of Directors

The Board reserves to itself all authority and duties specified in and required by state law, PEC Bylaws, and Articles of Incorporation, including authority to:

a) Retain a competent General Manager to whom it delegates authority and responsibility for the operation of PEC within the limits of this and other approved policies, programs, and budget.

b) Appoint and approve the employment terms, and periodically review the
performance of the PEC General Counsel.

c) Consult with the General Counsel in a manner that acknowledges that the General Counsel's legal client is the Cooperative, as an entity.
d) Approve any amendment to the Bylaws.
e) Authorize borrowing of money by PEC.
f) Approve ethics or conduct policies regarding directors and officers of the Board.
g) Approve Election Procedures.
h) Approve compensation of Directors.
i) Approve the Tariff and PEC Service Policy, including provisions for member access to Cooperative records.
j) Approve bond indentures.
k) Authorize the initiation, settlement or setting of strategic direction of litigation involving PEC.
l) Approve the strategic direction of governmental advocacy by PEC.
m) Approve agreements related to joint ownership of generating facilities.
n) Set rates and charges for the distribution of electric power and energy.
o) Approve of sale or purchase or initiation of condemnation of any real property, other than the sale or purchase of easements.
p) Approve all contracts to buy materials, supplies, equipment & related goods and services to the extent required by Appendix A, with a value of greater than $3 million, or with a period of performance of more than three years.
q) Approve contracts for consulting services to the extent required by Appendix A.
rq) Approve change orders to Board-approved contracts which individually, or in the aggregate, exceed $250,000, to the extent required by Appendix A.
s) Approve operational budget and capital improvement plan.
t) Approve any employment contract entered into by the Cooperative and a prospective employee or current employee.
u) Approve any swap agreement, derivative agreement, hedging agreement, margin account or any other similar instrument; and
v) Approve any derivative contracts in connection with any Cooperative power purchase agreement.

Responsibilities of the **General ManagerChief Executive Officer**

The **General ManagerChief Executive Officer**, as the chief executive officer of PEC, is responsible for carrying out the business and activities of PEC according to state law, PEC Bylaws, and Articles of Incorporation, and the direction of the Board.

The **General ManagerChief Executive Officer** will issue appropriate management procedures setting forth desired direction of staff management and other employee actions consistent with the policies, goals, objectives, and directions of the Board.

The **General ManagerChief Executive Officer** will keep the Board adequately informed of operating conditions, financial positions and other key areas of operations, with reports on results of programs, plans, policies and PEC operations, the need for facilities, financing, operating requirements and other areas as requested or required.
The **General Manager** will provide thorough well-organized information to the Board in a timely manner. Communications to the Board will be made forthrightly and with candor in the evaluation of the conduct of business and operations of PEC.

As provided in the Bylaws, the **General Manager** each year will present to the Board objectives, goals, and priorities for its consideration.

**Delegation of Authority to the General Manager**

The Board of Directors delegates to the **General Manager** all general powers including those specified in the State Law, PEC Bylaws, and Articles of Incorporation necessary to accomplish PEC’s purpose, plans and objectives as approved by the Board, except for those specifically reserved to members or the Board by provisions of State Law, the Bylaws and Bond Indentures.

The Board delegates to the **General Manager** authority to perform all acts necessary or incidental to the management of the operations of PEC. This includes, but is not limited to, authority to oversee and make day-to-day decisions regarding finance, engineering, legal in consultation with the General Counsel, communications, government relations, human resources, existing facilities, electrical construction, distribution and transmission matters in order to effectuate Board policy. Specifically, the **General Manager** has authority to,

a) Prepare, execute, acknowledge as appropriate, and deliver all agreements, contracts, certificates, consents, indemnities, affidavits, receipts, and other instruments of any nature, necessary or appropriate in the ordinary course of PEC business. This includes authority to approve all routine, major, and non-routine purchases to the extent provided in Appendix A up to $3 million, or for a period up to three years, or as otherwise authorized by the Board.

b) Negotiate or approve any amendments to contracts otherwise approved by the Board for construction, with such contracts to be submitted to the Board of Directors for approval to the extent any such amendments (individually or in the aggregate) do not exceed $250,000 provided in Appendix A.

c) Delegate appropriate authority, except that which is to be retained by the Members or the Board of Directors by State Law, PEC Bylaws or Articles of Incorporation, to the **General Manager**'s immediate staff and authorize such further delegation to management and staff, to the extent reasonably determined by the **General Manager** and without prior approval, all activities outlined in their position descriptions.

d) Consult with the General Counsel in a manner that acknowledges that the General Counsel's legal client is the Cooperative, as an entity.
Appendix A

The following contracts must be approved by the Board in advance:

1. All contracts with a value of $1 million dollars or higher;
2. All CIP contracts with a value of $2 million dollars or higher provided that any change order related to a contract not greater than 10% in value and in an amount not to exceed $200,000 does not require Board approval;
3. All consulting contracts with a value of $150,000.00 or higher; or
4. All contracts of any value with a period of performance of more than two years or longer.

A reporting and tracking system for the above contract actions shall be implemented to capture at least the following items:

1. Unique contract identification number;
2. Purpose/brief description of goods/services and business case justification;
3. Estimated value per annum/total value;
4. Competitive Action: If yes, then a discussion of market test. If no, then a discussion of the justification for sole source;
5. Period of performance;
6. Pricing type: fixed, variable, time & materials, labor hour, cost-plus or other type; and,
7. Name: contract user and contract administrator.

For any time and materials, cost-plus or other contracts for which a total amount is not specified, an estimate of yearly payments under the contract shall be made and that estimated amount shall be used to apply this policy. For any such contract, the General Manager/Chief Executive Officer shall notify the board if, at any time during the course of that contract, the total expenditures under that contract reach exceed 75 percent of the thresholds described in this policy.

In the event a weather event or other emergency necessitates expenditures exceeding these amounts prior to Board approval, the General Manager/Chief Executive Officer may authorize such expenditures if 1) before such authorization, the General Manager/Chief Executive Officer issues a formal determination declaring and describing the emergency and the anticipated special expenditures, and 2) as soon as practicable the General Manager/Chief Executive Officer informs the Board of the emergency and the need for special expenditures, and 3) as soon as practicable the General Manager/Chief Executive Officer seeks the Board’s ratification for the expenditures.

*Payments of debt service, taxes and monthly power bills are not subject to these limits.
PEC BOARD POLICY

AUTHORITY AND RESPONSIBILITIES

BOARD ADOPTED: September 15, 2008

AMENDMENTS: November 17, 2008, November 16, 2009, March 15, 2010,

OBJECTIVES:

This policy defines the relationship between the Board of Directors and the management of
PEC through the description of responsibilities and expectations and through the
establishment of guidelines for the delegation of certain powers and duties. To the extent,
if any, this policy conflicts with the PEC Bylaws, the Bylaws control. To the extent this
policy conflicts with prior policy, this policy controls.

POLICY:

Responsibilities of the Board of Directors

The Board of Directors (Board) will establish the overall goals and objectives of PEC,
review them on an ongoing basis and issue Board policies setting forth desired direction of
management actions to attain such goals and objectives.

The Board will consider and establish policies in the best interest of the PEC membership
and will retain management personnel with the capabilities to accomplish related policy
goals. The Board will faithfully discharge its public trust by conducting its affairs in an
ethical and sound business manner consistent with the fiduciary duties of the Directors.
The Board and the Directors serving thereon will not direct the policies and actions of PEC
from perspectives of private gain or personal advantage.

The Board will exercise reasonable diligence to ensure that the delegations to the Chief
Executive Officer provided for in this policy statement are properly implemented.

The Board will articulate clear and coherent goals and statements of its expectations
through its policies and plans. The Chief Executive Officer is responsible for day-to-day
management of the organization with a view to the fulfillment of these goals and
expectations.

Authority Reserved to the Board of Directors

The Board reserves to itself all authority and duties specified in and required by state law,
PEC Bylaws, and Articles of Incorporation, including authority to:

a) Retain a competent Chief Executive Officer to whom it delegates authority and
responsibility for the operation of PEC within the limits of this and other approved
policies, programs, and budget.

b) Appoint and approve the employment terms, and periodically review the
performance of the PEC General Counsel.
c) Consult with the General Counsel in a manner that acknowledges that the General Counsel's legal client is the Cooperative, as an entity.

d) Approve any amendment to the Bylaws.

e) Authorize borrowing of money by PEC.

f) Approve ethics or conduct policies regarding directors and officers of the Board.

g) Approve Election Procedures.

h) Approve compensation of Directors.

i) Approve the Tariff and PEC Service Policy, including provisions for member access to Cooperative records.

j) Approve bond indentures.

k) Authorize the initiation, settlement or setting of strategic direction of litigation involving PEC.

l) Approve the strategic direction of governmental advocacy by PEC.

m) Approve agreements related to joint ownership of generation facilities.

n) Set rates and charges for the distribution of electric power and energy.

o) Approve of sale or purchase or initiation of condemnation of any real property, other than the sale or purchase of easements.

p) Approve all contracts to buy goods and services with a value of greater than $3 million, or with a period of performance of more than three years.

q) Approve change orders to Board-approved contracts which individually, or in the aggregate, exceed $250,000.

r) Approve operational budget and capital improvement plan.

s) Approve any employment contract entered into by the Cooperative and a prospective employee or current employee.

t) Approve any swap agreement, derivative agreement, hedging agreement, margin account or any other similar instrument; and

u) Approve any derivative contracts in connection with any Cooperative power purchase agreement.

Responsibilities of the Chief Executive Officer

The Chief Executive Officer is responsible for carrying out the business and activities of PEC according to state law, PEC Bylaws, and Articles of Incorporation, and the direction of the Board.

The Chief Executive Officer will issue appropriate management procedures setting forth desired direction of staff management and other employee actions consistent with the policies, goals, objectives, and directions of the Board.

The Chief Executive Officer will keep the Board adequately informed of operating conditions, financial positions and other key areas of operations, with reports on results of programs, plans, policies and PEC operations, the need for facilities, financing, operating requirements and other areas as requested or required.

The Chief Executive Officer will provide thorough well-organized information to the Board in a timely manner. Communications to the Board will be made forthrightly and with candor in the evaluation of the conduct of business and operations of PEC.
As provided in the Bylaws, the Chief Executive Officer each year will present to the Board objectives, goals, and priorities for its consideration.

Delegation of Authority to the Chief Executive Officer

The Board of Directors delegates to the Chief Executive Officer all general powers including those specified in the state law, PEC Bylaws, and Articles of Incorporation necessary to accomplish PEC’s purpose, plans and objectives as approved by the Board, except for those specifically reserved to members or the Board by provisions of state law, the Bylaws and bond indentures.

The Board delegates to the Chief Executive Officer authority to perform all acts necessary or incidental to the management of the operations of PEC. This includes, but is not limited to, authority to oversee and make day-to-day decisions regarding finance, engineering, legal in consultation with the General Counsel, communications, government relations, human resources, existing facilities, electrical construction, distribution and transmission matters in order to effectuate Board policy. Specifically, the Chief Executive Officer has authority to,

a) Prepare, execute, acknowledge as appropriate, and deliver all agreements, contracts, certificates, consents, indemnities, affidavits, receipts, and other instruments of any nature, necessary or appropriate in the ordinary course of PEC business. This includes authority to approve all routine, major, and non-routine purchases up to $3 million, or for a period up to three years, or as otherwise authorized by the Board.

b) Negotiate or approve any amendments to contracts otherwise approved by the Board to the extent any such amendments (individually or in the aggregate) do not exceed $250,000.

c) Delegate appropriate authority, except that which is to be retained by the Members or the Board of Directors by state law, PEC Bylaws or Articles of Incorporation, to the Chief Executive Officer’s immediate staff and authorize such further delegation to management and staff, to the extent reasonably determined by the Chief Executive Officer and without prior approval, all activities outlined in their position descriptions.

d) Consult with the General Counsel in a manner that acknowledges that the General Counsel’s legal client is the Cooperative, as an entity.

In the event a weather event or other emergency necessitates expenditures exceeding these amounts prior to Board approval, the Chief Executive Officer may authorize such expenditures if 1) before such authorization, the Chief Executive Officer issues a formal determination declaring and describing the emergency and the anticipated special expenditures, and 2) as soon as practicable the Chief Executive Officer informs the Board of the emergency and the need for special expenditures, and 3) as soon as practicable the Chief Executive Officer seeks the Board’s ratification for the expenditures.

* Payments of debt service, taxes and monthly power bills are not subject to these limits.
Subject: Member Assistance Program Policy Amendment

Submitted By: Eddie Dauterive

Department: Member Services

Background: Revision to MAP policy that will address how accounts with write-offs are handled.

Fiscal Impact:
No expenditure of Cooperative funds required; no expenditures of staff time expected (other than ordinary processing requirements).

ATTACHMENTS:
- MAP Policy Amendment 04-16-12 RL (PDF)
RESOLUTION (ID # 1983)

Member Assistance Program Policy Amendment

RESOLVED BY THE BOARD OF DIRECTORS OF THE COOPERATIVE, that the Cooperative amend the Member Assistance Policy as attached; and

BE IT FURTHER RESOLVED, that the Chief Executive Officer or his designee is authorized to take such actions as needed to implement this resolution.
MEMBER ASSISTANCE POLICY
PEDERNALES ELECTRIC COOPERATIVE, INC.
BOARD ADOPTED: December 20, 2010
AMENDMENTS: September 19, 2011, April 16, 2012

Agencies

- Participating Community Action, other qualified organizations and county agencies will qualify members seeking assistance consistent with Comprehensive Energy Assistance Program requirements.

- PEC funds will be available to members whose income is less than 250% of the published Federal Poverty Level.

- Each qualifying member will be limited to a maximum of $500 per calendar year.

- PEC will provide each agency with a report that includes details on each pledge to a member, identifies apparent exceptions to standard rules; the percentage of the total allocation distributed each month, and the balance amount of funds remaining for each agency.

- The agency will provide to PEC its distribution notification on the PEC pledge form, which confirms that the member has met the specified qualifications, attested to with an agency representative’s signature on the appropriate line.

- PEC will contact each agency at least once a month to facilitate communication between the agencies and the Cooperative to optimize the benefit to our members in providing financial assistance. PEC will also communicate with staff administering the program to review the effectiveness of the program and to resolve any issues.

- PEC reserves the right to deny participation in the program to any member perpetrating or attempting to perpetrate fraud against the Cooperative, for example: meter tampering, providing false identification information, owing a debt to the utility on a closed account, returned checks, etc.

- Agencies have the right to deny participation in the program to any member who perpetrated fraud against their agency or is not willing to participate in programs required to support self-sufficiency.

MAP distributions are limited to members only. Therefore, funds can only be used for the person whose name is on the account.

- MAP distributions are limited to current account usage and billing only.

- MAP distributions may not be used towards membership fees, deposits or meter tampering fees.
• MAP funds will be allocated to the agencies annually with the caveat that PEC will assess agency use of funds on a quarterly basis, with the possibility of redistributing these limited funds to the best advantage of our members.

• PEC reserves the right to refer MAP recipients for an energy audit, if appropriate.

• PEC will assist members qualified to receive MAP assistance by adapting collection guidelines:
  o Suspending disconnection up to five business days on accounts MAP agencies are assisting
  o Waiving deposits, reconnect fees, establishment fees, and current billing late fees

Private Charities

In an effort to facilitate assistance for low income members, PEC will accept member qualification from private charities/assistance sources (PS) who agree to abide by the following guidelines. Members meeting these qualifications will be granted the same adaptations to our collection practices allowed to members qualified for our Member Assistance Program.

PS agrees to verify the members’ identity and need for assistance by requiring the following documents:

• Photo ID (drivers’ license, military ID, etc.)
• Social Security Card & Social Security Numbers for ALL household members
• Proof of income for the past 30 days for anyone living at the residence (check stubs, Social Security [SSI and/or Disability] award letters for current year, unemployment benefits, veterans’ benefits, child support, workers’ comp, TWC registration printout, TANF award documentation, etc.)
• Proof of 10% loss of income/ resources in last 60 days

The PS will verify that the member’s income is less than 250% of the Federal Poverty Level.

At the PS’s request and with member’s authorization, PEC will provide the member’s current utility bill and a cash transaction sheet showing the billing and payment history for at least the past twelve months.

If the PS advises PEC that they are satisfied that the member qualifies for assistance, PEC will authorize collection adaptations on a case-by-case basis, with the understanding that the member will be submitting an application to the appropriate MAP agency.
Owing a debt to the utility on a closed account

While the goal of PEC’s Member Assistance Program (MAP) is to help the less fortunate members of our Co-op keep their power on, PEC must balance fiscal stewardship with helping those in need. PEC contracts with a debt collection agency and closed accounts turned over to them need to be addressed in a way compatible with our contract. If the member (or their spouse) has one closed, unpaid account that has gone to the collection agency, PEC will allow them to participate in the MAP under the following conditions:

- The member must contact the collection agency and set up payment arrangements on the old debt within five business days
- After PEC verifies with the collection agency that arrangements have been made, PEC will apply the pledged MAP funds to the member’s current account
- The member must keep their payment arrangements with the collection agency
- Before additional MAP funds are applied, PEC will verify with the collection agency that arrangements are being kept
- Members who reach their MAP limit and subsequently fail to keep payment arrangements with the collection agency will be unable to participate again in the program until the old debt is paid in full
- PEC will notify the appropriate MAP agency when a member is not eligible to participate in the MAP because of old, unpaid debt to PEC

Updated collections processes have revealed numerous instances of members or their spouse with more than one old, unpaid debt to PEC, an indication of evading or avoiding paying that debt by opening a new account at a different address or under a different name. A member (or their spouse) with more than one closed, unpaid account is ineligible for MAP participation until all the balances are paid in full. PEC will notify the appropriate MAP agency when a member is not eligible to participate in the MAP because of old, unpaid debt to PEC.