

Budget Policy

PEDERNALES ELECTRIC COOPERATIVE, INC.

1. Purpose:

- 1.1.** The Budget is a financial document projecting revenues, expenses and capital improvement expenditures. It is also a tool that is used to help monitor and assure financial integrity. The Budget serves as an operational guideline and helps to link financial planning with day-to-day operations. The Budget is approved annually by the Board of Directors (Board). This Budget Policy establishes the framework and process for developing, adopting, comparing planned to actual spend, and amending the Budget as may be necessary, from time to time.

2. Scope:

- 2.1.** The Budget establishes the maximum Board authorized funding levels for operating expenses and capital expenditures. On occasion, PEC management may determine that it is necessary, in the pursuit of company goals and objectives, to request the Board consider an amendment to the Budget.

3. Definitions:

- 3.1.** Budget Amendment – A Board approved change to the Budget.
- 3.2.** Capital Improvement Plan (CIP) – Outlines and describes planned expenditures for Electric Plant in Service. Expenditures are budgeted by CIP project. The CIP projects are then grouped or categorized.
- 3.3.** Department – a functional division that has measurable activities or attributes reporting to the following including - Chief Executive Officer (“CEO”), General Counsel, Chief Financial Officer (“CFO”), Chief Operations Officer (“COO”), and Chief Information Officer (“CIO”), Executive Vice President, Public Affairs (“EVP”).
- 3.4.** Electric Plant in Service – Includes the original cost of assets owned and used for electric utility operations that has an expected useful life of more than one year. This includes intangible plant, production plant, transmission plant, distribution plant, regional transmission and market operation plant, and general plant (GP).
- 3.5.** IT Framework - The CIP budget category assigned to costs for hardware, software, & electronics (except tools for Operations) for the purpose of acquiring and maintaining technology assets for the efficiency of the Cooperative. Examples include: life cycle management of computers, fiber cabling for infrastructure, and telephone technology.
- 3.6.** General Plant (GP) – Is a component of Electric Plant in Service and includes land and land rights; structures and improvements; office furniture and equipment; transportation equipment; stores equipment; tools and shop and garage equipment; laboratory equipment; power operated equipment; communication equipment; miscellaneous equipment; and other tangible property.
- 3.7.** Major CIP Variance – An unfavorable fiscal year-end CIP Budget Category variance that exceeds the Board allowance without a Budget Amendment. The Board allowance is established as an unfavorable variance of \$100,000 or 5.0%

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of the CIP Budget Category, whichever is **greater**. The listing of CIP Budget Category Codes is provided in Appendix A.

- 3.8.** Major Operating Variance – An unfavorable fiscal year-end Operating Budget expense variance that exceeds the Board allowance without a Budget Amendment. The Board allowance is established as an unfavorable variance at the Federal Energy Regulatory Commission (“FERC”) account group level of \$100,000 or 5.0%, whichever is **greater**. The listing of FERC account groups and three (3) digit FERC account numbers are provided in Appendix B.
- 3.9.** Management – Consists of executive level, vice president level, director level, and manager level positions. May include other positions or Supervisors depending on the context.
- 3.10.** Minor Variance – An unfavorable fiscal year-end variance that does not rise to the level of either a Major CIP Variance or a Major Operating Variance.
- 3.11.** Operating Budget – Outlines and describes forecasted revenues and planned expenses related to providing service to member-owners. Revenues and expenses are budgeted by activities at the three-digit FERC account level. (See example attached as Appendix B.)
- 3.12.** Required Amendment – A Budget Amendment that will prevent a Major Variance.
- 3.13.** RUS - The United States Rural Utilities Service (RUS). RUS administers programs and provides infrastructure or infrastructure improvements to rural communities. These include water/waste water treatment, electric power, and telecommunication services. RUS provides loan programs to rural utility service cooperatives to expand economic opportunities and improve the quality of life for rural residents.
- 3.14.** Strategic Plan – Consists of PEC’s vision, mission and values statements; key corporate metrics; and Board adopted goals and Management initiatives as defined in PEC’s Board approved strategic planning documents.
- 3.15.** Utility Plant (UP) – Includes Electric Plant in Service except GP; property held under a capital lease; electric plant purchased or sold; experimental electric plant unclassified; electric plant leased to others; electric plant held for future use; completed construction not classified; construction work in progress; accumulated provision for depreciation; and retirement work in progress.

4. Policy Statement and Implementation:

- 4.1.** Budget Preparation and Adoption.
 - 4.1.1.** On an annual basis, PEC staff (Budget Team) coordinates the preparation of PEC’s Budget with Management.
 - 4.1.2.** A draft Budget is prepared and reviewed by Management for completeness, accuracy, alignment with the strategic planning documents, and consistency with PEC goals and objectives, including cost controls.
 - 4.1.3.** After incorporating adjustments based on Management’s review, a draft Budget is presented to the Board for review and consideration.
 - 4.1.4.** Should PEC become an RUS borrower, all budgeting processes will comply with the RUS regulations.

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4.2. Unused Funds –

- 4.2.1. Approved CIP that is not used, is not eligible to be spent elsewhere. Unused CIP Budget cannot be transferred from one CIP budget category to another CIP budget category nor from one CIP project to another CIP project even within the same CIP budget category without Board approval.
- 4.2.2. Unused Operating Budget cannot be transferred from one FERC account group to another FERC account group without approval from the Executive over the division.

4.3. Budget Amendments

- 4.3.1. Revenues are budgeted, but revenue variances will not require a Budget Amendment.
- 4.3.2. Purchased power and property taxes are budgeted, but variances will not require a Budget Amendment.
- 4.3.3. Budgeting for amendments to line extensions - The CIP includes a budget category for new line extensions which are designated in PEC's Tariff and Business Rules for the construction cost of lines to serve consumers. Since the actual amounts necessary are directly related to variable member growth, and set by PEC Tariff and Business Rules, variances do not require a Budget Amendment.

4.4. Variances:

- 4.4.1. Reporting of Variances is determined by whether a Minor Variance or Major Operating Variance or Major CIP Variance has occurred.

5. Procedure Responsibilities

- 5.1. The Budget should be maintained throughout the year at the level of spend that is authorized within each Department.
- 5.2. Each Department's Management is responsible for complying with financial policies and ensuring expenditures are properly coded.
- 5.3. Each Department's Management is responsible for providing a written explanation of Minor Variances to the Budget Team, monthly. This applies to both the CIP and Operating Budget.
- 5.4. Each Department's Management is responsible for obtaining a Budget Amendment before obligating PEC to an expenditure that will create a Major CIP Variance or a Major Operating Variance. Major CIP and Operating Variances will need to be presented to the Board by the Executive.
- 5.5. The CEO has the authority, pursuant to the Authority and Responsibilities Policy, to authorize emergency and other time critical and essential, business expenditures that create a Major Variance and/or are not in the Budget. Authorizations of this nature will be reported to the Board by the CEO.

6. Enforcement

- 6.1. The CEO shall enforce this Policy. Executives, Vice Presidents, and other members of Management shall ensure adherence with this Policy. Violations of this Policy may result in disciplinary or corrective action, up to and including, termination.

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7. Superseding Effect

7.1. This Policy supersedes all previous policies and memoranda concerning the subject matter. Only the Approver may authorize exceptions to this Policy.

8. References and Related Documents:

Policy Title:	Budget Policy
Review Frequency:	Every 2 Years
Last Reviewed:	March 21, 2016, April 9, 2018
Date Adopted:	March 21, 2016
Effective Date:	July XX, 2018
Amendment Dates:	July XX, 2018
Approver:	Board of Directors
Applies to:	All PEC Employees and Board of Directors
Administrator:	Finance - Controller
Superseding Effect	This Policy supersedes all previous policies and memoranda concerning the subject matter. Only the Approver may authorize exceptions to this policy.

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Appendix A - CIP Budget Categories:

Distribution

100	Lines – New (i.e., Extensions)
200	Tie-Lines
300	Conversion and Line Changes
400	Substations, Switching Stations, Metering Points, etc. - New
500	Substations, Switching Stations, Metering Points, etc. - Changes
600	Miscellaneous Distribution Equipment
700	Other Distribution Items

Transmission

800	Lines - New
900	Substations, Switching Stations – New
TRL	Line and Station - Changes
TRM	Other Transmission Lines

Other Utility

AMI	Communication / AMI
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General Plant

FAC	Facilities
ITD	IT Framework
VEH	Vehicles
TEQ	Tools & Equipment

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Appendix B – PEC’s FERC Account Group

FERC Account Groups:

SOE	Sale of Electricity
OER	Other Electric Revenue
COP	Cost of Power
TOE	Transmission Operation Expense
TME	Transmission Maintenance Expense
DOE	Distribution Operations Expense
DME	Distribution Maintenance Expense
CAC	Consumer Accounts Expense
CSV	Customer Service & Information Expense
ECO	Sales Expense (Economic Development)
A&G	Administrative & General Expense
TAX	Tax Expense
INT	Interest Expense
NON	Other Income & Deductions (i.e., Non-Operating Income/Expense)

FERC Accounts by FERC Account Group:

GROUP FERC #

SOE	Sale of Electricity
	440 Residential Sales
	442 Commercial & Industrial Sales
	445 Other Sales to Public Authorities (College & Military Discount)
OER	Other Electric Revenue
	450 Forfeited Discounts (penalties, late fee, etc.)
	451 Miscellaneous Service Revenues (establishment fee, connect & reconnect fee, etc.)
	454 Rent from Electric Property (pole contacts, etc.)
	456 Other Electric Revenue
	459 Renewable Energy Credits (RECs)
COP	Cost of Power
	555 Purchased Power
	557 Other Expenses (internal power supply cost)
TOE	Transmission Operation Expense
	560 System Control & Load Dispatch
	561 Load Dispatching
	562 Station Expense
	563 Overhead Line Expense
	566 Miscellaneous Transmission Expense
TME	Transmission Maintenance Expense
	568 Maintenance Supervision and Engineering
	570 Maintenance of Station Equipment
	571 Maintenance of Overhead Lines
DOE	Distribution Operations Expense
	580 Operation Supervision and Engineering
	581 Load Dispatching
	582 Station Expense
	583 Overhead Line Expense

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584	Underground Line Expense
585	Street Lighting
586	Meter Expense
587	Consumer Installation Expense
588	Miscellaneous Distribution Expense
589	Rents
DME	Distribution Maintenance Expense
590	Maintenance Supervision and Engineering
592	Maintenance of Station Equipment
593	Maintenance of Overhead Lines
594	Maintenance of Underground Lines
595	Maintenance of Line Transformers
598	Maintenance of Miscellaneous Distribution Plant
CAC	Consumer Accounts Expense
901	Supervision
902	Meter Reading Expense
903	Customer Records & Collections Expense
904	Uncollectable Accounts Expense
905	Miscellaneous Customer Accounts Expense
CSV	Customer Service & Information Expense
907	Supervision
908	Customer Assistance Expense
909	Informational & Instructional Advertising
910	Misc. Customer Service & Info Expense
ECO	Sales Expense (Economic Development)
911	Customer Program Supervision
912	Demonstration and Selling Expense
913	Advertising Expense
A&G	Administrative & General Expense
920	Administrative and General Salaries
921	Office Supplies & Expense
923	Outside Services Employed
925	Injuries & Damages
926	Employee Pensions & Benefits
930	Miscellaneous General Expense
931	Rents
935	Maintenance of General Plant
DEP	Depreciation Expenses
403	Depreciation Expense (transmission, distribution & general plant)
TAX	Tax Expense
408	Taxes Other than Income (property tax & PUC gross receipts assessment)
INT	Interest Expense
427	Interest on Long-Term Debt
428	Amortization of Debt Issue Cost
431	Other Interest Expense (Line of Credit, Capital Lease, etc.)

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NON Other Income and Deductions (i.e., Non-Operating Income/Expense)

- 418 Equity in Earnings of Subsidiary
- 419 Interest & Dividend Income
- 421 Miscellaneous Non-operating Income/Expense
- 424 Other Capital Credits & Patronage Capital (earned from TEC, etc.)
- 426 Other Deductions (donations, etc.)