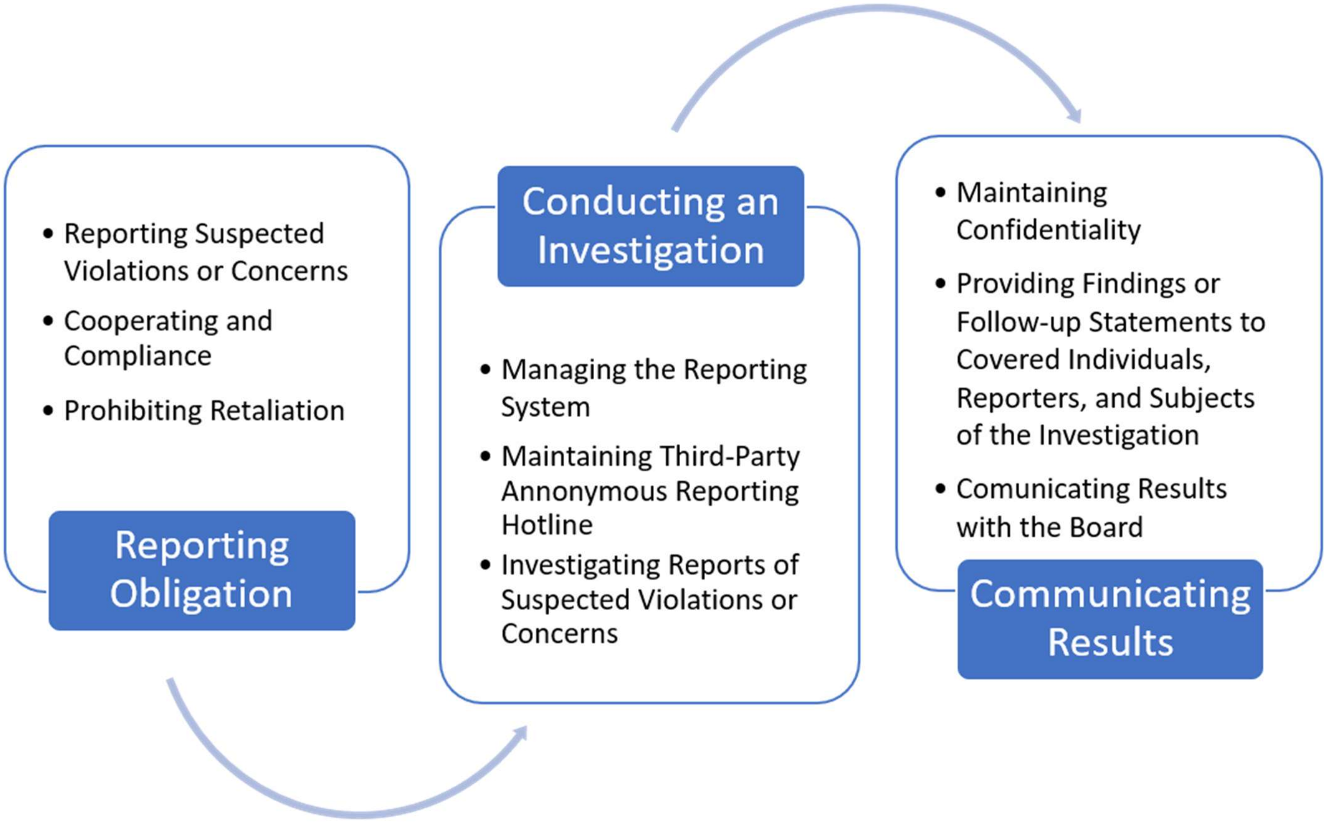
# ETHICS AND COMPLIANCE REPORTING POLICY

Effective Date: ~~October 16, 2020~~ TBD

## POLICY AT A GLANCE

PEC is committed to upholding our Value of **Integrity** by establishing expectations and obligations for reporting and investigating suspected violations of, or concerns regarding, PEC's Values, Code of Conduct, Policies and procedures, or relevant laws and regulations.



## 1. PURPOSE

**1.1.** ~~The~~ Pedernales Electric Cooperative, Inc. (the "Cooperative" or "PEC") supports a culture of ethical behavior and adherence to conduct consistent with PEC's Code of Conduct, including ~~the Standards of Conduct, Conflict of Interest Policy, and~~ PEC Values and PEC ~~p~~Policies, including~~, and~~ Conflict of Interest Policies. ~~Report of~~ Establishing straightforward and comprehensible processes for ~~R~~reporting suspected Code of Conduct violations is one aspect of promoting and maintaining an ethical workplace at PEC~~.~~, and an important element of the PEC Compliance and Ethics Program. This ~~p~~P~~olicy establishes a Reporting~~ Policy ~~and provides~~ sets forth~~for~~ the responsibilities~~, use,~~ and implementation of the reporting process. The PEC Board of Directors ("Board") oversees and approves ~~establishes~~ this ~~Reporting~~ Policy ~~to~~ for the benefit~~earn the credibility~~ of Members, employees, contractors, and other stakeholders~~ through corporate attention and behavioral action~~.

## 2. SCOPE

**2.1.** This Policy applies to ~~all Members,~~ PEC employees, contractors, and ~~PEC stakeholders~~representatives.

## 3. POLICY AND IMPLEMENTATION

**3.1.** ~~**3.1.** PEC employees and contractors are expected to adhere to PEC Policies and Procedures, as applicable. Adherence requires accountability for the Cooperative's principles, values, and standards.~~ This ~~Reporting~~ Policy ~~establishes a mechanism~~outlines the various methods for reporting suspected violations of PEC's Code of Conduct, ~~including the Standards of Conduct, Conflict of Interest Policy, and~~ PEC Values, and/or any PEC P~~p~~olicy, including the Conflict of Interest Policies.

**3.2.** ~~**3.2.**~~ Individual Responsibility and Accountability for Reporting Suspected Violations

**3.2.1.** ~~**3.2.1.**~~ All PEC directors, officers, ~~Members,~~ employees and contractors, including contract or temporary workers, (together "~~Reporters~~Covered Individuals") have an obligation to report suspected violations of PEC's Code of Conduct, including ~~the Standards of Conduct, Conflict of Interest Policy, and~~ PEC Values, and the Conflict of Interest Policies.

**3.2.2.** ~~3.2.2. PEC employees, contractors, and Members~~~~Reporters~~Covered Individuals shall ~~report suspected violations to PEC Management. You may~~ report suspected violations to any PEC manager, director, officer, attorney, Human Resources department, or ~~or~~ the ~~to PEC's Ethics and~~ Compliance ~~Officer ("ECO")~~department~~,~~ (collectively "Management"), or~~. Additionally, violations and concerns may be reported via~~through the Ethics and Compliance Hotline as described below.

**3.2.3.** ~~3.2.3. Employees~~~~PEC employees and contractors, including contract or temporary workers~~Covered Individuals~~,~~ shall cooperate with any investigation or inquiry made pursuant to a report under this Policy, which may include personal interviews, reasonable ~~requests for and~~ review of emails, text messages and other documents, and requests for written statements signed by the reporting person(s) and others. Cooperation ~~is not~~will not be considered reasonable if a Covered Individual does not share all reasonably requested information and Management, or an authorized investigator, is unable to ~~obtain sufficient information to~~ conduct a full and fair investigation as a result. Actions that may be deemed as a failure to reasonably cooperate ~~of an the actions or inactions of a PEC Employee or contractor, individual's conduct,~~ includ~~e~~ing, but are not limited to, refusal to participate in a personal interview~~ (including in the method requested)~~, refusal to comply with a reasonable request for and review of documents, or refusal to comply with a request for a signed written statement.

**3.3.** Integrity of Reporting

**3.3.1.** This Policy encourages and enables ~~persons, other than Cooperative Board Directors, to raise ethics and compliance issues for prompt investigation and appropriate action. Persons~~ the reporting of suspected violations ~~must do so~~ in good faith, as required by PEC's Code of Conduct~~, and based upon a reasonable belief in the truth of the circumstances~~. No ~~persons~~employee or contractor shall make a report solely to harass, intimidate, mislead, or otherwise delay, disrupt, or obstruct proper PEC business.~~ ~~ Anyone who is found to have abused this Policy or otherwise made a report in bad faith will be subject to discipline up to and including termination.

**3.3.2.** Reports~~ of a suspected violation~~ will be maintained ~~as private~~confidential to the greatest extent possible, consistent with the need to conduct an appropriate investigation and take appropriate corrective action(s). Where confidentiality is necessary to preserve the integrity of an investigation (for example, to prevent destruction or falsification of evidence, protect witnesses or potential witnesses, or maintain the attorney/client privilege), ~~any person(s) may~~persons involved shall be ~~instructed not to discuss~~notified of the ~~report or~~confidential nature of the investigation, ~~including any interviews or document requests.~~ and their obligations ~~in helping~~ to maintain ~~confidentiaility~~confidentiality.

**3.3.3.** Reports may be made anonymously. Anonymous reports are investigated to the extent possible using reported information~~, however, ~~. ~~such investigations may be limited based on the facts made available in the report. Investigation of anonymous reports may, however, be limited or impracticable based on the facts and circumstances involved. The Board, Management, or a reporting administrator will evaluate reports to determine the scope of an appropriate investigation.~~

**3.4.** Retaliation Prohibited

**3.4.1.** No retaliation shall be taken against ~~any employee, contractor, or Member~~anyone for reporting suspected violations or expressing concerns or inquiries in good faith under this Policy. ~~Employees, contractors, and Members,~~Individuals who report in good faith~~,~~ may do so without fear of harassment, retaliation, or retribution.

**3.4.2.** Any employee who retaliates against any person who has made a good faith report under this Policy is subject to disciplinary action, up to and including termination of employment.

~~1 3.5. Management Responsibilities~~

~~**3.5.1.** The Chief Executive Officer ("CEO") is responsible for implementation of this Policy except in instances where the CEO or the person administering the Policy is the subject of a suspected violation. In such instances, the Board shall be responsible.~~

~~**3.5.2.** PEC Management is expected to build and maintain a culture of ethics taking into account compliance with all applicable rules, laws, and regulations, standards, policies, and procedures. Management must ensure that applicable standards, values, and principles are communicated in a timely and effective manner; ensure that adequate controls are implemented in their areas of responsibility; monitor~~

~~ongoing compliance; investigate suspected or reported violations; and take prompt corrective action when necessary.~~

3.5.~~3.6.~~Reporting System Required

3.~~6~~5.1. ~~The CEO must establish~~PEC shall maintain an objective ~~and credible~~ process to receive reports and to timely and effectively review, investigate, and take action on any suspected or reported violations. ~~Management~~PEC shall also maintain and publicize the availability of an independent, third-party mechanism for reporting suspected violations~~,~~ anonymously through the Ethics and Compliance Hotline.

3.5.2. The Chief Executive Officer ("CEO") ~~(or designee)~~ shall periodically provide the Board with aggregated data on the number and types of reports of suspected violations or concerns investigated. In no event shall any confidential report information or details be released to the Board or other persons without prior approval by the CEO or~~,~~ General Counsel~~, or Chief Compliance Officer~~.

3.6. Third Party Investigation

3.6.1. ~~3.7.1.~~The Board or Management may, at any time, refer a report to an outside third-party for an independent investigation and recommendation.

3.7. ~~3.8.~~ Investigation ~~Results~~ Conclusion

3.~~8~~7.1. Management shall provide a follow-up statement to ~~all persons~~Covered Individuals who report a suspected violation upon conclusion of ~~the~~ any investigation or actions taken~~, informing that their complaint/inquiry has been investigated and appropriate action taken, as applicable~~. Upon conclusion and when appropriate, Management shall also provide a follow-up statement to an employee or contractor who is the subject of an~~ report~~ investigation. ~~For confidentiality reasons, nNo~~Limited details Appropriate information regarding the process and~~or~~ findings of an investigation shall be disclosed to the Reporter or the subject of the report to the extent necessary for context in the issuance of any discipline. The identity of any participants in the investigation and other facts or details about the investigation that are not required for context within the disciplinary process shall be kept confidential.

3.8. ~~3.9.~~ Ethics and Compliance Hotline

3.8.1. ~~3.9.1. The Board~~ PEC has ~~also~~ implemented and maintains an Ethics and Compliance Hotline for ~~any person, other than members of the PEC Board of Directors, to report~~reporting suspected violations of PEC's Code of Conduct, including ~~the Standards of Conduct, Conflict of Interest Policy, and~~ PEC Values, and the Conflict of Interest Policies. The Ethics and Compliance Hotline is administered by an independent, third-party Hotline Administrator. The Ethics and Compliance Hotline may be used to report suspected violations when a person is not comfortable reporting compliance or ethical violations directly to ~~PEC~~ Management.

~~3.10. Report of Suspected Violations~~

~~3.10.1. Suspected violations may be reported to appropriate Management. Suspected violations may be reported anonymously to the Ethics and Compliance Hotline by phone or on-line. Anonymous reports are investigated to the extent possible using reported information. Investigation of anonymous reports may, however, be limited or impracticable based on the facts and circumstances involved. The Board, Management, or a reporting administrator will evaluate reports to determine the scope of an appropriate investigation.~~

~~3.10.2. Reports to the Ethics and Compliance Hotline are not traced or tracked to any location or identity. Ethics and Compliance Hotline reports are forwarded to PEC Management not involved in the subject of the report. A response is made available on-line to the individual filing a report.~~

**3.9.** ~~3.11.~~ Confidentiality

**3.9.1.** ~~3.11.1.~~ All materials created pursuant to this Policy and in response to a report of a suspected violation, including any investigation materials, working papers, recommendations or reports, are confidential and exempt from disclosure under the Cooperative's Open Records Policy. All materials shall be maintained as private and confidential to the Cooperative ~~to the degree possible~~ and used for the purpose of implementing this Policy. However, disclosure ~~as~~ required by law will not be considered a violation of this Policy.~~Discussion of material covered by this Policy is an exception to open deliberation under the Board Meetings Policy.~~

~~3.11.2. The Board may, by majority vote, release the conclusions, recommendations, actions, or account of reports investigated under this Policy.~~

~~3.11.3. This section on Confidentiality does not apply when providing notice to law enforcement.~~

## 4. DEFINITIONS

**4.1.** **Ethics and Compliance Hotline** – An independent, third-party mechanism established by the Board to report suspected violations of PEC's Code of Conduct, ~~including the Standards of Conduct,~~ Conflict of Interest Policy, and PEC Values.

**4.2.** **Covered Individuals** ~~–~~ – PEC directors, officers, employees and contractors, including contract or temporary workers.

**4.3.** **Management** – A PEC manager, director, officer, attorney, Human Resources department, or the Compliance department.

**4.4~~2~~.** **Reporting Policy** – ~~Means this~~This Policy establishing an ethics and compliance reporting process and providing the responsibilities for implementation.

## 5. PROCEDURE RESPONSIBILITIES

**5.1.** The CEO is responsible for implementation and administration of this Policy.

**5.2.** Report to the PEC Board of Directors

**5.2.1.** The CEO, or designee, shall regularly provide ~~a written~~an account to the PEC Board regarding aggregated data on the number and type of ~~all~~ ethics and compliance reports. ~~The accounting must provide an explanation of the processes and procedures carried out by Management to implement this Policy. The account must summarize all reports, how all reports were handled or investigated, and what corrective or remedial action, if any, was taken. Management shall also recommend to the Board any improvements or actions that are necessary in response to any report made under this Policy.~~ Reporting to the Board under this Policy is an exception to open session deliberation under the ~~Open~~ Board Meetings Policy.

**5.3.** Review of Policy

**5.3.1.** Management shall recommend to the Board any improvement or necessary actions that may enhance the purposes of this Policy.

## 6. POLICY ENFORCEMENT

**6.1.** The Board and Management shall enforce this Policy. Violations of this Policy may result in disciplinary or corrective action, up to and including, termination.

**6.2.** Report of Criminal Activity

If a report or investigation made under this Policy ~~demonstrates~~ is finds a subject may be involved in criminal activity, any such information will be immediately reported to ~~PEC~~PEC's General~~Legal~~ Counsel or other member of the Legal department~~who is~~and ~~Chief Compliance Officer~~ (as long as they are not a subject of the report~~ssuming they are not an involved subject. When PEC Counsel finds~~subjects). If the General Counsel or Legal Department determines~~d~~ that ~~information is indicative of~~ criminal activity~~, PEC Counsel shall immediately report may have~~ occurred, such information shall be reported to the CEO (unless involved in the criminal activity), ~~President of the~~ the PEC Board of Directors, and appropriate law enforcement or regulatory authority~~y~~. ~~PEC~~PEC's General ~~Legal~~ Counsel~~ and Chief Compliance Officer~~, in conjunction with law enforcement, shall determine whether the PEC investigation should continue and how communication about the investigation will occur. ~~At the appropriate time when adequate facts become available, the CEO, in consultation with the General Counsel and the Chief Compliance Officer, shall report updates on the investigation to the Board.~~

## 7. REFERENCES AND RELATED DOCUMENTS

PEC Vision, Mission, and Values Statements

Code of Conduct~~, including the Standards of Conduct~~

Conflict of Interest Policy - Employees

Disciplinary Action Policy (Within the Employee Handbook)

IRS Form 990 Part VI Section B 13

Board Meetings Policy

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| **Date adopted:** | **August 18, 2015** |
| **Last reviewed:** | ~~October 16, 2020~~ TBD |
| **Review frequency:** | Every Five Years |
| **Amendment dates:** | September 19, 2016; October 16, 2017; October 16, 2020 |
| **Effective date:** | ~~October 16, 2020~~ TBD |
| **Approver:** | Board of Directors |
| **Applies to:** | All Members, employees, contractors, and PEC stakeholders. |
| **Administrator:** | Chief Executive Officer |
| **Superseding effect:** | This Reporting Policy supersedes and replaces the Whistleblower Policy and all previous ~~policies~~ Policies and memoranda concerning the subject matter. Only the Approver may authorize exceptions to this policy. |