

# Budget Policy

## PEDERNALES ELECTRIC COOPERATIVE, INC.

### 1. Purpose:

- 1.1. The Budget for Pedernales Electric Cooperative, Inc. ("PEC" or "Cooperative") is a financial document projecting revenues, expenses and Capital Improvement Plan expenditures. It is also a tool that is used to help monitor and assure financial integrity for the Cooperative. 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 Cooperative goals and objectives, to request the Board to consider an amendment to the Budget.

### 3. Definitions:

- 3.1. Budget – A financial document projecting revenues, expenses, and Capital Improvement Plan expenditures approved annually by the Board.
- 3.2. Budget Amendment – A Board approved change to the Budget.
- 3.3. Capital Improvement Plan ("CIP") – The plan that outlines and describes planned expenditures for the construction or acquisition of assets to be placed in service.
- 3.4. CIP Budget – Amounts anticipated to be spent on CIP projects.
- 3.5. CIP Budget Category – A group or category of CIP projects. The listing of CIP Budget Category Codes is provided in **Appendix A**.
- 3.6. Department – A functional division of the Cooperative that has measurable activities or attributes.
- 3.7. Federal Energy Regulatory Commission ("FERC") Account – The Cooperative's system of accounts is based on the Code of Federal Regulations, Title 7, Chapter XVII, Rural Utilities Service, Department of Agriculture, Part 1767, Subpart B – Uniform System of Accounts, and is generally referred to as the FERC system of accounts. The listing of FERC Account groups and three-digit FERC Account numbers is provided in **Appendix B**.
- 3.8. 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.
- 3.9. 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% of the CIP Budget Category, whichever is **greater**.
- 3.10. 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 FERC Account group level of \$100,000 or 5.0%, whichever is **greater**.
- 3.11. Management – Consists of executive, vice president, director, and manager positions. May include other positions or supervisors depending on the context.
- 3.12. Minor Variance – An unfavorable fiscal year-end variance that does not rise to the level

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of either a Major CIP Variance or a Major Operating Variance.

- 313.** Operating Budget – Outlines and describes forecasted revenues and planned expenses related to providing service to member. Revenues and expenses are budgeted by activities at the three-digit FERC Account level.

### 4. Policy Statement and Implementation:

#### 41. Budget Preparation and Adoption.

- 4.1.1. On an annual basis, Finance Department staff (Budget Team) works with the executive management to establish Budget parameters and then coordinates the preparation of PEC's Budget with Management in each Department.
- 4.1.2. A draft Budget is prepared and reviewed by Management for completeness, accuracy, alignment with strategic initiatives, 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.

#### 42. Unused Funds.

- 4.2.1. Approved CIP Budget that is not used may not be transferred from one CIP Budget Category to another CIP Budget Category without Board approval. However, unused approved CIP Budget may be transferred among approved projects that were budgeted within the same CIP Budget Category with approval from the executive manager over the Department.
- 4.2.2. Unused Operating Budget may be transferred from one FERC Account group to another FERC Account group with approval from the executive manager over the Department.
- 4.2.3. Amounts may not be transferred between the Operating Budget and the CIP Budget without Board approval.
- 4.2.4. Approved CIP Budget may not be used toward the purchase of real estate without obtaining Board approval for the purchase of real estate pursuant to the Authority and Responsibilities Policy.

#### 43. Budget Amendments.

- 4.3.1. Budget amendments may be required for Major Operating Variances or Major CIP Variances.
- 4.3.2. Revenues are budgeted, but revenue variances will not require a Budget Amendment.
- 4.3.3. Purchased power and property taxes are budgeted, but variances will not require a Budget Amendment.
- 4.3.4. Line extensions are budgeted as part of CIP, but because the construction cost of lines to serve members are directly related to variable member growth and set by PEC's Tariff and Business Rules, variances will not require a Budget Amendment.

#### 44. Variances.

- 4.4.1. Reporting a Minor Variance to the Board is not required
- 4.4.2. Reporting a Major Operating Variance or Major CIP Variance to the Board is required.

### 5. Procedure Responsibilities

- 51.** The Budget should be maintained throughout the year at the level of spend that is authorized within each Department.
- 52.** Each Department's Management is responsible for complying with financial policies and ensuring expenditures are properly coded.
- 53.** The Budget Team will provide monthly variance reports to each Department outlining actual spend as compared to the CIP Budget and Operating Budget.

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54. Each Department's Management is responsible for providing monthly written explanations of Minor Variances to the Budget Team This applies to both the CIP Budget and Operating Budget.
55. 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.
56. 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

61. The CEO shall enforce this Policy. Management shall ensure adherence with this Policy. Violations of this Policy may result in disciplinary or corrective action, up to and including, termination.

### 7. Superseding Effect

71. 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, June 23, 2018, December 13, 2019  |
| Date Adopted:      | March 21, 2016   |
| Effective Date:    | July 01, 2018  |
| Amendment Dates:   | December 13, 2019  |
| 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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## **PEDERNALES ELECTRIC COOPERATIVE, INC.**

### **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 |
|-----|---------------------|

#### **General Plant**

|     |                   |
|-----|-------------------|
| FAC | Facilities        |
| ITD | IT Framework      |
| VEH | Vehicles          |
| TEQ | Tools & Equipment |

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### Appendix B – PEC's FERC Account Group

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#### **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

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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   |

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### **PEDERNALES ELECTRIC COOPERATIVE, INC.**

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,

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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.)                                |