

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 ("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:

31. Activity Code Group – The Cooperative's system of managerial account codes used in the budget process and to report financial information. The listing of Activity Code Groups is provided in **Appendix A.**
- ~~31.32~~ Budget – A financial document projecting revenues, expenses, and Capital Improvement Plan expenditures approved annually by the Board.
- ~~32.33~~ Budget Amendment – A Board approved change to the Budget.
- ~~33.34~~ Capital Improvement Plan ("CIP") – The plan that outlines and describes planned expenditures for the construction or acquisition of assets to be placed in service.
- ~~34.35~~ CIP Budget – Amounts anticipated to be spent on CIP projects.
- ~~35.36~~ CIP Budget Category – A group or category of CIP projects. The listing of CIP Budget Category Codes is provided in **Appendix AB.**
- ~~36.37~~ Department – A functional division group of the Cooperative that has measurable activities or attributes.
- ~~37. 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.**~~
38. 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.
39. 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**.
310. 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~~Activity Code Group level of \$100,000 or 5.0%, whichever is **greater**.
311. Management – Consists of executive, vice president, director, ~~and manager~~ and

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supervisor positions. May include other positions ~~or supervisors~~, depending on the context.

312. 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.

313. Operating Budget – Outlines and describes forecasted revenues and planned expenses related to providing service to ~~member~~Member. Revenues and expenses are budgeted ~~by activities and tracked~~ at the ~~three-digit FERC Account~~Activity Code Group 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.

4.1.4. The Cooperative's accounting system and reports shall be kept and examined monthly by the Board in accordance with the Bylaws, and the system of accounts established by the Federal Energy Regulatory Commission shall be used for recording actual expenditures for regulatory purposes.

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~~Activity Code Group to another ~~FERC Account-group~~Activity Code 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~~Members are directly related to variable ~~member~~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.

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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~~Finance Department staff will provide monthly variance reports to each Department outlining actual spend as compared to the CIP Budget and Operating Budget.
54. Each Department's Management is responsible for providing monthly written explanations of Minor Variances to the ~~Budget Team~~Finance Department. 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:

- 8.1. Authority and Responsibilities Policy
- 8.2. Bylaws, Article III
- 8.3. Procurement Policy

Policy Title:	Budget Policy
Review Frequency:	Every 25 Years
Last Reviewed:	December 13, 2019 <u>XX/XX/XXXX</u>
Date Adopted:	March 21, 2016
Effective Date:	December 13, 2019
Amendment Dates:	March 21, 2016, April 9, 2018, June 23, 2018, December 13, 2019, <u>XX/XX/XXXX</u>
Approver:	Board of Directors
Applies to:	All PEC Employees and Board of Directors
Administrator:	Finance - Controller

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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 - Activity Code Groups:

<u>500 - 615</u>	<u>Operating Revenue</u>
<u>900 - 901</u>	<u>Purchased Power</u>
<u>1001 - 1110</u>	<u>Payroll and Benefits</u>
<u>1201 - 1308</u>	<u>Staff Expenses</u>
<u>1309</u>	<u>Member Events</u>
<u>2001 - 2055</u>	<u>Goods & Materials</u>
<u>3001 - 3380</u>	<u>Outside Services</u>
<u>4501</u>	<u>Outside Services</u>
<u>4001 - 4020</u>	<u>Directors' Expenses</u>
<u>4101 - 4104</u>	<u>Utilities</u>
<u>4207 - 4210</u>	<u>Transportation</u>
<u>4301 - 4599</u>	<u>Misc/Other Expenses</u>
<u>5101 - 5104</u>	<u>Taxes</u>
<u>9001 - 9009</u>	<u>Other Income (Expense)</u>
<u>4514</u>	<u>Other Income (Expense)</u>

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Appendix B - 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 <u>(1000)</u>	Line and Station - Changes
TRM <u>(1100)</u>	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

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
~~GSV~~ 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
	434	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.)~~

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