

Budget Policy

PEDERNALES ELECTRIC COOPERATIVE, INC.

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 ~~p~~Project. The CIP ~~p~~Projects are then grouped or categorized.

~~3.3.1.1. CIP Budget Categories: PEC has the following 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~~

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~~Other Utility~~

~~AMI Communication / AMI~~

~~General Plant~~

~~FAC Facilities~~

~~ITD IT Framework~~

~~VEH Vehicles~~

~~TEQ Tools & Equipment~~

3.4.3.3. 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 ~~i~~ntangible ~~p~~lant, ~~p~~roduction ~~p~~lant, ~~t~~ransmission ~~p~~lant, ~~d~~istribution ~~p~~lant, ~~r~~egional ~~t~~ransmission and ~~m~~arket ~~o~~peration ~~p~~lant, and ~~g~~eneral ~~p~~lant (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 ~~S~~ervice 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% 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”) ~~a~~ccount ~~g~~roup 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.

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- 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 BA.)
- 3.12.** Required Amendment – A Budget Amendment that will prevent a Major Variance.
- 3.12.3.13.** 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.
- 3.13.3.14.** Strategic Plan – Consists of PEC's vision, mission and values statements; key corporate metrics; and Board adopted goals and Mmanagement initiatives as defined in PEC's Board approved strategic planning documents.
- 3.14.3.15.** Utility Plant (UP) – Includes Electric Plant in Sservice 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 Mmanagement.
- 4.1.2. A draft Budget is prepared and reviewed by Mmanagement 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 Mmanagement's review, a draft Budget is presented to the Board for review and consideration.
- 4.1.4. Should PEC become an RUS borrower, all bBudgeting processes will comply with the RUS regulations.
- 4.2.** Unused Funds –
- 4.2.1. Approved CIP that is not used, is not eligible to be for spent elsewhere. Unused CIP Budget cannot be transferred from one CIP bBudget cCategory to another CIP bBudget cCategory nor from one CIP pProject to another CIP pProject even within the same CIP bBudget cCategory without Board approval.
- 4.2.2.** Unused Operating Budget cannot be transferred from one FERC aAccount gGroup to another FERC aAccount gGroup without Executive approval from the Executive over the division.

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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~~ eExtensions - The CIP includes a bBudget cCategory 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 ~~D~~Department.

5.2. Each ~~D~~Department's Mmanagement is responsible for complying with financial policies and ensuring expenditures are properly coded.

5.3. Each ~~D~~Department's Mmanagement 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 Mmanagement 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. Board, Executives, Vice Presidents, and other members of Mmanagement shall ensure adherence with this-enforce this Policy. Violations of this Policy may result in disciplinary or corrective action, up to and including, termination.

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:

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Policy Title:	Budget Policy
Review Frequency:	Every 2 Years
Last Reviewed:	March 21, 2016, <u>April 9, 2018</u>
Date Adopted:	March 21, 2016
Effective Date:	July <u>June</u> XX, 2018
Amendment Dates:	July <u>June</u> 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

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

Transmission

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

Other Utility

<u>AMI</u>	<u>Communication / AMI</u>
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General Plant

<u>FAC</u>	<u>Facilities</u>
<u>ITD</u>	<u>IT Framework</u>
<u>VEH</u>	<u>Vehicles</u>
<u>TEQ</u>	<u>Tools & Equipment</u>

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Appendix **BA** – 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.)