

# Budget Policy

## PEDERNALES ELECTRIC COOPERATIVE, INC.

### 1. Purpose:

The purpose of the Budget Policy ("Policy") is to establish the framework and process for developing, adopting, and comparing planned spend to actual spend, and amending the Pedernales Electric Cooperative, Inc. ("PEC" or "Cooperative") Budget as may be necessary, from time to time.

~~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").~~

~~1.1. 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.~~

~~1.2.~~

### 2. Scope:

This Policy applies to the Board, the CEO, and all employees of the Cooperative. The Budget establishes the maximum Board authorized funding levels for operating expenses on capital expenditures.

~~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 that the Board to consider an amendment to the Budget.~~

### 3. Definitions:

~~3.1. Activity Code Group – PECThe 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.~~

~~3.2. Budget – A financial document projecting revenues, expenses, and Capital Improvement Plan ("CIP") expenditures approved annually by the Board.~~

~~3.3. Budget Amendment – A Board approved change to the Budget.~~

~~3.4. Capital Improvement Plan ("CIP") – The plan that outlines and describes planned expenditures for the construction or acquisition of assets to be placed in service.~~

~~3.5. CIP Budget – Amounts anticipated to be spent on CIPCIP projects. - Includes both CIP Category Budget and CIP Project Budget.~~

~~3.6. CIP Budget-Category Budget – A group or category of CIPCIP projects. The listing of CIP Category Budget Category-Codes is provided in Appendix B.~~

~~3.6.3.7. CIP Individual Project Budget – An individual CIPCIP project Budget that is approved by the Board in total, spanning more than one fiscal year.~~

~~3.8. CIP Vehicle Budget – An approved group of vehicle purchases within a given fiscal year.~~

~~3.9. Department – A functional group of the CooperativePEC that has measurable activities or attributes.~~

~~3.7.3.10. Executive Management – An employee that is an Officer or vice-president of PEC assigned with the management responsibility over a PEC business unit or department.~~

~~4. 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.~~

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~~Vehicle Budget – An approved group of vehicle purchases within a given fiscal year.~~

**3.11.** Major CIP Category Budget Variance – An unfavorable fiscal year-end CIP Category 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 Category Budget ~~Category~~, whichever is **greater**.

**4.1.3.12.** Major CIP Individual Project Budget Variance – An unfavorable CIP Project Budget Variance that exceeds the Board allowance without a Budget Amendment. The Board allowance is established as an unfavorable, cumulative variance of \$100,000 or 10.0% of the CIP Individual Project Budget regardless of year in which variance is incurred, whichever is **greater**.

**4.2.3.13.** Major Operating Budget 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 Activity Code Group level of \$100,000 or 5.0%, whichever is **greater**.

**4.3.3.14.** Management – Consists of executive, vice president, director, manager, and supervisor positions. May include other positions, depending on the context.

**4.4.3.15.** Minor Variance – An unfavorable fiscal year-end variance that does not rise to the level of either a Major CIP Category Budget Variance, Major CIP Individual Project Budget Variance, or a Major Operating Budget Variance.

**4.5.3.16.** Operating Budget – Outlines and describes forecasted revenues and planned expenses related to providing service to Members. Revenues and expenses are budgeted and tracked at the Activity Code Group level.

### 5.4. Policy Statement and Implementation:

#### 5.1.4.1. Budget Preparation and Adoption:

**5.1.1.4.1.1.** On an annual basis, the Finance Department ~~shall staff~~ works with ~~the Executive ma~~ Management to establish Budget parameters and ~~then~~ coordinates the preparation of PEC's Budget with Management in each Department across the Cooperative.

**5.1.2.4.1.2.** A draft Budget is prepared and reviewed by Management for completeness, accuracy, alignment with strategic initiatives, and consistency with PEC's goals and objectives, including cost controls.

**5.1.3.4.1.3.** After incorporating adjustments based on Management's review, a draft Budget is presented to the Board for their review and consideration.

**4.1.4.** ~~PEC~~ The Cooperative's accounting system and reports shall be kept and examined monthly by the Board in accordance with federal and/or state law, the PEC Articles of Incorporation, and the PEC Bylaws.

**4.1.5.** ~~, and t~~ The system of accounts established by the Federal Energy Regulatory Commission ("FERC") shall be used for recording actual expenditures for regulatory purposes.

**4.1.6.** The Budget should be maintained throughout the year at the level of spend that is authorized within each Department.

**5.1.4.4.1.7.** Each Department's Management is responsible for complying with PEC's financial policies, including the Procurement Policy and Limits, and ensuring expenditures are properly coded.

#### 5.2.4.2. Unused Funds:

**5.2.1.4.2.1.** Approved amounts within a Capital Improvement Project ("CIP") Category Budget that is not used may not be transferred from one CIP Category Budget ~~Category~~ to another CIP Category Budget ~~Category~~ without Board

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approval; ~~h.~~ However, unused approved amounts within a CIP Category Budget may be transferred among approved projects that were budgeted within the same CIP Category Budget ~~Category~~ with approval from ~~the Executive Management manager~~ over the Department.

~~4.2.2. Approved amounts within a CIP Individual Project Budget not used within one fiscal year will automatically roll into the next fiscal year until the CIP project is completed. Amounts within a CIP Individual Project Budget may not be transferred to another CIP Individual Project Budget or CIP Category Budget without Board approval.~~

~~5.2.2.4.2.3. Unused amounts within the Operating Budget may be transferred from one Activity Code Group to another Activity Code Group with approval from the Executive Management manager over the Department.~~

~~4.2.4. Amounts may not be transferred between the Operating Budget and the CIP Budget without Board approval.~~

~~5.2.3. Approved CIP Project Budgets not used within one fiscal year will automatically roll into the next fiscal year until project is completed. Approved CIP Project Budgets may not be transferred to other CIP Project Budgets or CIP Category Budgets without Board approval.~~

~~4.2.5. Approved amounts within the CIP Budget may not be used toward the purchase of real estate without obtaining Board approval for the purchase of real estate pursuant in accordance with to the Authority and Responsibilities Policy.~~

~~5.2.4.4.2.6. Approved amounts within the CIP Vehicle Budgets that are not used within one fiscal year, for individual vehicles that are ordered but not yet received, will automatically roll into the next fiscal year.~~

### ~~5.3.4.3. Budget Amendments.~~

~~4.3.1. Budget amendments may be required for Major Operating Variances or Major CIP Variances. Each Department's Management is responsible for obtaining a Budget Amendment before obligating PEC to an expenditure that will create a Major CIP Category Budget Variance, Major CIP Individual Project Budget Variance, or a Major Operating Budget Variance.~~

~~5.3.1.~~

~~4.3.2. The following items are budgeted, but variances do not require a Budget Amendment:~~

- ~~• Revenues; are budgeted, but revenue variances will not require a Budget Amendment.~~
- ~~• Purchased Power; and Property Taxes; or are budgeted, but variances will not require a Budget Amendment.~~
- ~~• Depreciation is budgeted, but variances will not require a Budget Amendment as this is a non-cash item related to the timing of plant in service.~~

~~5.3.2. 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.~~

### ~~5.4.4.4. Variances.~~

~~4.4.1. The Finance Department will provide monthly variance reports to each Department outlining actual spend as compared to the CIP Budget and Operating~~

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

~~5.4.1.4.4.3. Minor Variances are not required to be reported to the Board. Reporting a Minor Variance to the Board is not required.~~

4.4.4. Reporting a Major Operating Budget Variances, or Major CIP Category Budget Variances, or Major CIP Individual CIP Project Budget Variances are required to be reported to the Board using a Budget Amendment is required.

4.4.5. The Chief Executive Officer 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 shall will be reported to the Board by the Chief Executive Officer as soon as practicable, but no later than the next Board meeting after the action is taken.

~~1.1.~~

### **Procedure Responsibilities:**

~~The Budget should be maintained throughout the year at the level of spend that is authorized within each Department.~~

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

~~The Finance Department staff will provide monthly variance reports to each Department outlining actual spend as compared to the CIP Budget and Operating Budget.~~

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

~~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.~~

~~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.~~

### **6.5. Enforcement:**

~~6.1.5.1. The Chief Executive Officer 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.~~

### **2. Superseding Effect:**

~~2.1. This Policy supersedes all previous policies and memoranda concerning the subject matter. Only the Approver may authorize exceptions to this Policy.~~

### **7.6. References and Related Documents:**

~~1.1. PEC Articles of Incorporation~~

~~2.2.1.2. PEC Bylaws~~

~~2.3.1.3. Authority and Responsibilities Policy~~

~~2.4. Bylaws, Article III~~

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## PEDERNALES ELECTRIC COOPERATIVE, INC.

[1.4. Procurement Policy and Limits](#)

[1.5. 161.059 Texas Utilities Code](#)

Policy Title:	Budget Policy
Review Frequency:	Every 5 Years
Last Reviewed:	<del>November 20, 2020</del> <a href="#">January 11, March 2022</a>
Date Adopted:	March 21, 2016
Effective Date:	<del>November 20, 2020</del> <a href="#">March 18, 2022</a>
Amendment Dates:	March 21, 2016; April 9, 2018; June 23, 2018; December 13, 2019; November 20, 2020; <a href="#">March 18, 2022</a>
Approver:	Board of Directors
Applies to:	All PEC Employees and Board of Directors
Administrator:	<del>Finance</del> 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 - Activity Code Groups:**

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

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### Appendix B - CIP Budget Categories:

#### Distribution and Substation

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
<del>TRL(1000)</del>	Line and Station - Changes
<del>TRM(1100)</del>	Other Transmission Lines

#### General Plant

<del>2000</del> FAC	Facilities
<del>3000</del> ITD	IT Framework
<del>VEH</del>	<del>Vehicles</del>
<del>4000</del> TEQ	Tools & Equipment
<del>5000</del> VEH	<del>Vehicles</del>