



Business Plan

2017 - 2018

MESSAGE FROM THE CEO



As the Chief Executive Officer of PEC, I am pleased to present the 2017 – 2018 Business Plan, a tool that will enable the Cooperative to make informed decisions that support the board approved strategic plan, ensuring we meet the needs of our members, now and in the future.

PEC is the largest electric distribution cooperative serving over 290,000 active accounts in Central Texas, an area of approximately 8,100 square-miles. Electricity service is vital to all our members, including residential, commercial, organizations and local governments. In addition, continued strong economic growth and sustainability will rely on PEC providing safe, reliable and affordable electricity to all members. PEC proudly employs a strong team of over 730. Our employees are known for their commitment, responsiveness, and expertise.

Today, a number of technological advancements provide both opportunities and challenges that face the Cooperative. These challenges are not unique to PEC. The entire U.S. electric grid is facing similar challenges, while technologies continue to present opportunities. This is a time where PEC is faced with critical decisions and investments needed to ensure the system and services continue to meet member expectations, especially for reliability, cost, modernization, smarter technologies and rate predictability. This two-year business plan is built on the established board driven strategic plan to ensure that the goals of the strategic plan are met, and provides visibility to how the Cooperative will execute those initiatives. This plan provides guidance for decision-making and executing initiatives on time, on budget, and within a consistent framework.

Our strategic destination is clear: “over the next four years, PEC will be recognized as an industry leader by earning high member satisfaction.” As PEC, we are extremely proud of the people we work with, the system we maintain, and service we offer our members. With continued support and investments in our Cooperative, PEC will deliver high member satisfaction.

A handwritten signature in black ink, appearing to read 'John D. Hewa', with a stylized, flowing script.

John D. Hewa
Chief Executive Officer

EXECUTIVE SUMMARY

PEC's mission and vision is to provide exceptional value to the members through the commitment of providing low cost, reliable and safe energy solutions. The organization's strategic destination is to ensure PEC is recognized as an industry leader by earning high member satisfaction. The energy industry is facing transformative changes that affect how electricity is distributed. Advancements in smarter technologies are key drivers to this change. In addition, more informed consumers and various rate structures will drive investment into technologies and processes to ensure we meet members' needs.

The success of a business plan requires input from the strategic plan to create the list of business initiatives. Those initiatives are then to be executed and monitored through a balanced scorecard and measured by key performance indicators (KPIs), which will be reviewed and modified as needed, as shown in Figure 1.

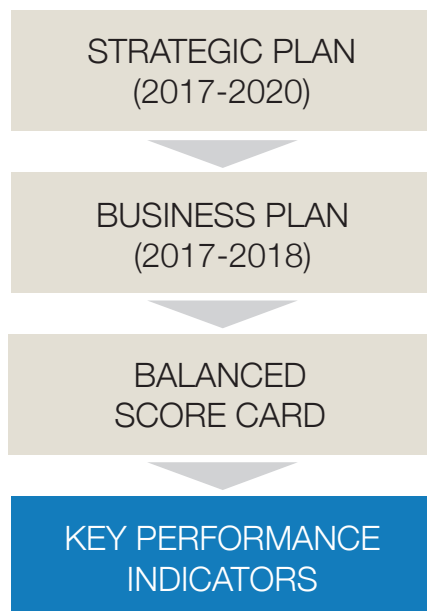


Figure 1: Flow of key successfully executing the strategic plan

Built on the established board strategic plan, this two-year business plan outlines initiatives that will drive toward the successful attainment of organizational strategic initiatives. In order to effectively execute initiatives driven from the strategic plan, the business plan follows four strategic themes which meet the member value proposition and are financially consistent, sustainable and defensible:

- Optimized Operations
- Member Engagement
- Service Innovation
- Corporate Citizenship

MISSION, VISION AND VALUES

Mission Statement

We are committed to delivering low-cost, reliable and safe energy solutions for the benefit of our members.

Vision Statement

PEC is recognized as a high performance organization, providing exceptional value to our members and communities through safe, reliable and innovative service.

Values Statement

Our values serve as the organizational foundation that guides our decisions and direction. Our core values are Safety, Accountability, Integrity, Service, Engagement and Innovation.

Each business initiative maps to a strategic theme and strategic initiative. While working through all the initiatives, our values serve as our organizational foundation, guiding our decisions and direction. Our core values are Safety, Accountability, Integrity, Service, Engagement and Innovation. These foundational values, in addition to the Cooperative's mission and vision statement, will guide PEC to be recognized as an industry leader by earning high member satisfaction.

The purpose of this business plan is to provide a two-year outlook of business initiatives that will be conducted while looking forward within the timeframe defined by the strategic plan. Each proposed business initiative will address key areas such as the objective and description, financial impact and benefits, timelines, milestones and deliverables.

Furthermore, to ensure success, four key areas of measurement will be assessed to ensure the Cooperative is performing as expected. Those areas include:

- Operational Effectiveness
- Financial Impact
- Risk Management
- Member Value

Management will review and monitor the success of the business plan as needed, and can begin recommendations for future initiatives as directed by the strategic plan.

PEC STRATEGIC DESTINATION

Over the next four years, PEC will be recognized as an industry leader by earning high member satisfaction.

PEC STRATEGY MAP

Figure 2 shows the thematic strategy map and how it connects with the cooperative's mission, vision and values, in order to achieve the goals, set forth.¹

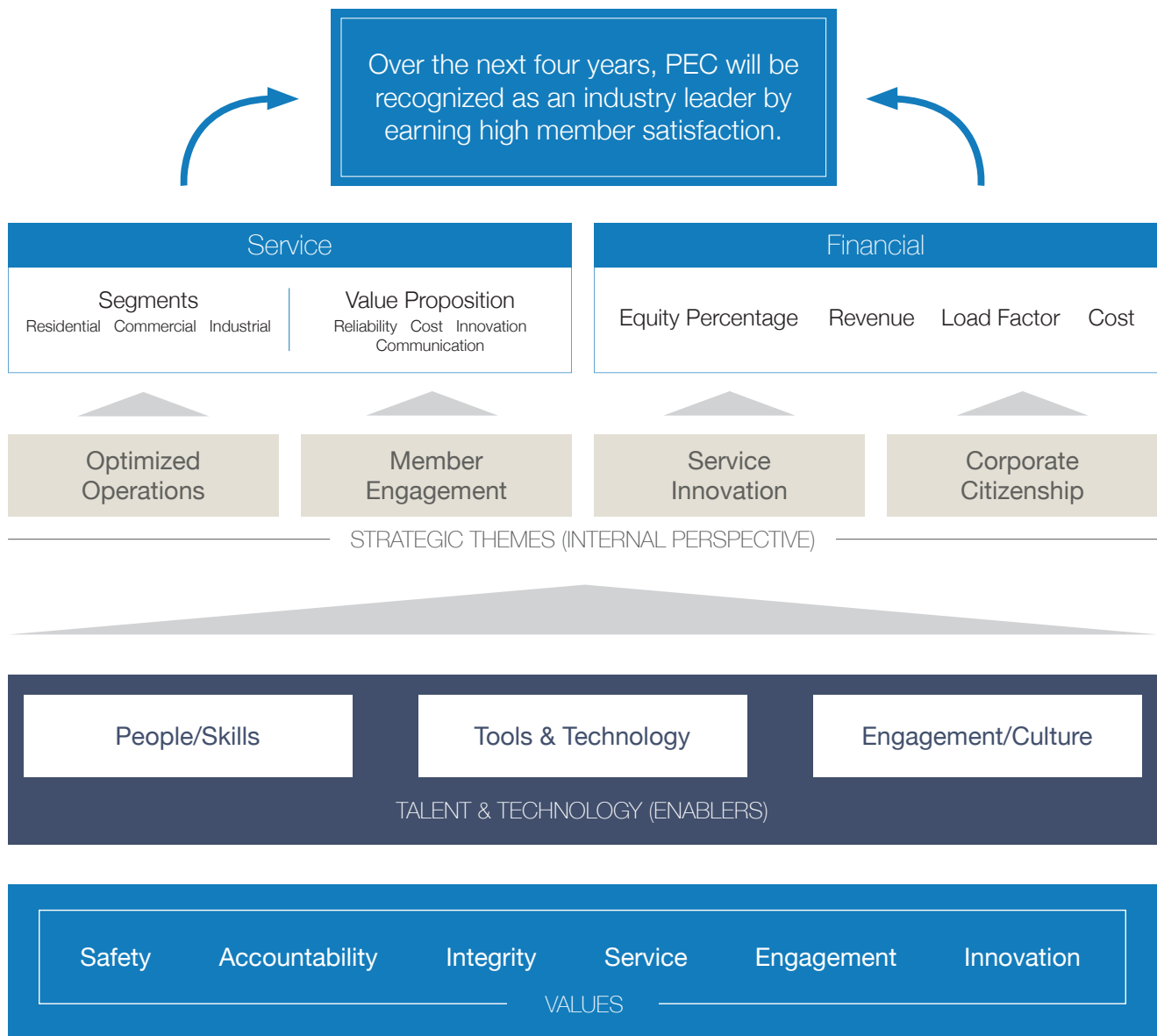


Figure 2 PEC Strategy Map

¹ For the framework model on how the strategic map was derived, please review PEC's 2017-2020 Strategic Plan (page 10)

STRATEGIC PLAN EXECUTION PROCESS

In order to execute the strategic plan efficiently, a process that captures the links between the strategic plan, business plan, balanced scorecard and key performance indicators is shown in Figure 3.

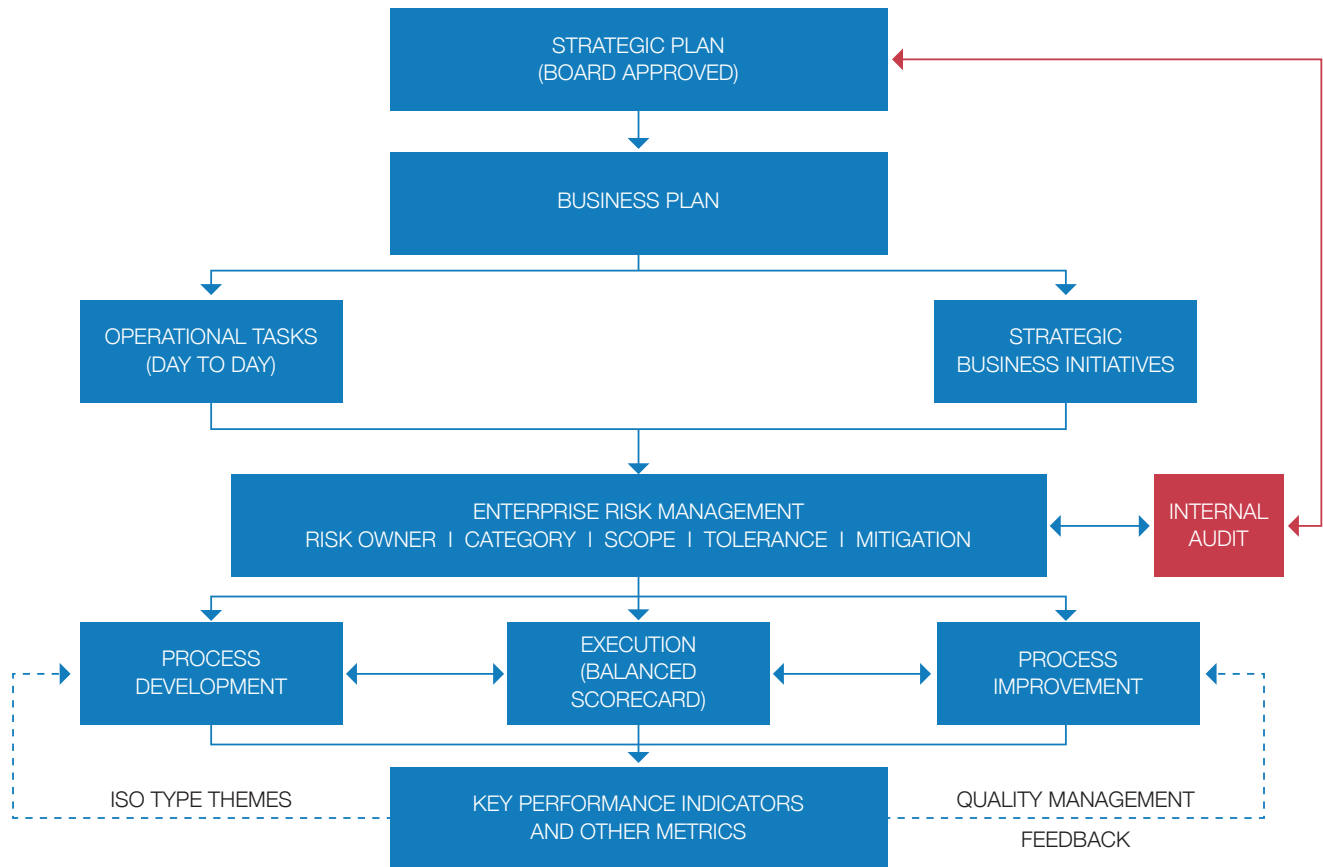


Figure 3 Strategic Plan Execution Process

This process ensures that risk management is considered through all the activities in the business plan. It allows for strategy execution through a balanced scorecard, continuous development and improvement of processes, and oversight through the internal audit function.

The balanced scorecard is a strategic planning and management system that is used extensively in business and industry, government, and nonprofit organizations worldwide to align business activities to the vision and strategy of the organization, improve internal and external communications, and monitor organizational performance against strategic goals.

OPERATIONAL TASKS (DAY-TO-DAY)

At the core, PEC continues to provide reliable, safe and affordable electricity to the members. The success of the organization relies on results-driven business units that execute day-to-day tasks. The business units include:

- Communications and Business Services
- Corporate Services
- Engineering and Energy Innovations
- Financial Services
- Information Technology
- Legal Services
- Member Services
- Operations
- Power Supply and Energy Services
- Strategy and Research

The business units ensure that day-to-day tasks, in addition to strategic business initiatives, are executed on time and on budget and meet member needs.

COMMUNICATIONS AND BUSINESS SERVICES

Communications and Business Services provides timely and accurate member communications and education, develops meaningful community relationships and identifies and captures load growth for the cooperative. Areas of day-to-day focus include:

- Planning, creating and executing well-thought-out communications and marketing outreach that promotes cooperative offerings, strategic vision and announcements
- Planning, creating and implementing useful internal communications for employees
- Developing and cultivating meaningful community relationships to support cooperative's health, growth and mission
- Educating youth on the benefits on being PEC members and the cooperative model
- Developing and growing commercial member relations while actively seeking commercial growth within PEC's service territory

CORPORATE SERVICES

Corporate Services provides leadership and strategic solutions for the human resources, training, safety, security, and facilities management divisions of the Cooperative. Areas of day-to-day focus include:

- Planning and managing the Cooperative's safety and security programs to ensure compliance with local, state and federal regulations
- Ensuring all employees have proper training, knowledge, and tools to enable them to perform their jobs safely and effectively
- Overseeing all human resource programs and policies including compensation and benefits, employee relations, recruitment and performance management
- Creating and implementing employee development programs to support the business needs of the Cooperative
- Managing the Lineworker Apprenticeship Program
- Managing the volunteer program, internship, workforce planning, succession planning and staff learning programs
- Planning, developing, and directing the facilities master plans
- Conducting ongoing, routine maintenance for PEC facilities and grounds

ENGINEERING AND ENERGY INNOVATIONS

Engineering and Energy Innovations designs and maintains distribution and transmission facilities in accordance with engineering best practices, utilizing innovation and technology while focusing on safety, reliability, and costs. Areas of day-to-day focus include:

- Planning and design distribution capital improvement projects, new substations, distribution and transmission lines, and replacing aging infrastructure
- Planning and forecasting future load growth
- Operating electric system through the control center including all substations, distribution and transmission lines and specialized distribution equipment
- Developing and cultivating financially beneficial solutions to control and reduce costs
- Developing energy efficiency solutions providing system-wide benefits
- Developing cost-saving predictive analytical solutions focusing on operations and maintenance expenses
- Ensuring strong reliability and resiliency of the grid

FINANCIAL SERVICES

Financial Services is responsible for accurate recording and reporting of historical and current financial transactions, playing an important role in developing economic strategy and forecasting the financial results of the strategy. Areas of day-to-day focus include:

- Providing leadership to enable PEC to achieve its strategic and financial goals
- Managing the accounting function while ensuring timely and accurate production of both internal and external financial statements; ensuring regulatory compliance for all accounting and financial reporting; overall responsibility for general ledger accounting, payroll, tax and treasury functions
- Providing the appropriate separation of duties and controls and for successful internal reviews and audits of transactions to ensure accountability and accurate financial reporting
- Providing advice and counsel to business units for the development and management of budgets and financial information
- Analyzing current and future business operations and plans to determine financial results
- Managing outside lending relationships to ensure adequate liquidity
- Developing policies, procedures and processes for procurement, contracting and monitoring of purchasing and contracting efforts
- Negotiating contract terms and conditions in coordination with Legal Services
- Managing and evaluating vendor performance, including pricing

INFORMATION TECHNOLOGY

Information Technology develops and deploys solution based technologies that result in employee and member efficiency, productivity and satisfaction. Areas of day-to-day focus include:

- Developing and deploying enterprise solutions that meet business needs
- Exploring innovative technologies and applications that derive a strategic outcome
- Maintaining a highly available infrastructure (network, servers, storage, applications, telecommunications, mobile devices)
- Developing and deploying solutions and technologies to members and employees that result in increased productivity and efficiency
- Developing and implementing a Cooperative-wide cyber security plan
- Developing and deploying a cyber security training program to all employees
- Protecting all digital assets from data breaches and unauthorized access
- Maintaining hardened and secure data centers

LEGAL SERVICES

The Legal Services department provides PEC's professional legal services and risk mitigation strategies that are client-focused and solutions-driven. Areas of day-to-day focus include:

- Managing litigation through discovery, management, and retention
- Providing contract review and agreements services
- Identifying and mitigating legal risk areas for the cooperative as a whole
- Managing risk and developing strategies for PEC's governance and business operations
- Advocating and promoting an environment of "doing the right thing" everyday
- Ensuring the Cooperative meets all the regulatory and compliance requirements
- Supporting the cooperative principle of democratic member control
- Creating the foundation for good governance
- Identifying and establish improved policies and procedures

MEMBER SERVICES

Member Services provides solutions and revenue collection through various functions including Billing, Payments, Collections, Capital Credits, Correspondence, Web Support and Member Assistance. Areas of day-to-day focus include:

- Providing front line member inquiries (applications, billing, outages, etc.)
- Providing personal touch (walk in, phone) to members
- Providing amplified information channels and messaging so as to improve ease of interaction with members
- Responsible for collections, disconnects and reconnects
- Processing of service orders
- Responsible for bad debt and recovery
- Managing the capital credits distribution
- Promoting self-service transactional capabilities
- Promoting PEC programs to members

OPERATIONS

Operations performs activities to maintain the reliability and integrity of the electrical distribution system by promoting safety awareness among personnel and ensuring timely restoration of service through efficient utilization of resources. Areas of day-to-day focus include:

- Operating and maintaining the grid for reliability
- Maintaining a state of readiness of PEC resources to respond to potential system disruptions
- Planning and executing system operations and maintenance in a safe and productive environment
- Planning to ensure adequate resources to meet growth demands
- Responding readily to requests for line extensions and development needs
- Performing system upgrades, system rehabilitation, and line construction

POWER SUPPLY AND ENERGY SERVICES

Power Supply and Energy Services provides effective management of PEC's power supply, develops and maintains competitive rate and pricing options and supplies members with beneficial energy programs and services. Areas of day-to-day focus include:

- Providing a competitive, diverse and low-cost power supply portfolio through energy management, power portfolio management, integrated resource planning, supply development and acquisition, contract administration, and risk and option analysis
- Creating, offering and educating members about competitive and innovative rate and price options
Providing member retail programs, products and services to improve membership value and cost of service
Educating and promoting energy management partnerships
- Developing and implementing new projects and business models
- Providing financial and economic analysis
- Managing all regulatory affairs

STRATEGY AND RESEARCH

Strategy and research provides effective management and execution of the Cooperative's strategic plan, business plan, key performance indicators, enterprise risk management, process development and improvement and technology research. Areas of day-to-day focus include:

- Developing, in conjunction with the Board of Directors, a long-range strategic plan
- Executing the board approved strategic plan
- Developing, implementing and executing a business plan
- Developing, implementing and monitoring a balanced scorecard for all initiatives
- Developing, implementing and monitoring board approved key performance indicators
- Responsible for cooperative-wide enterprise risk management program to identify and mitigate risks
- Developing, improving and implementing processes
- Researching technology and trends that advance the cooperative
- Conducting feasibility studies and pilots that demonstrate capability future technologies and business models

2017-2018 STRATEGIC BUSINESS INITIATIVES

In addition to the core business, PEC will engage in strategic business initiatives that help meet the goals of the strategic plan and reach the strategic destination. These initiatives will go through an evaluation process prior to execution to ensure they meet the needs of the members and are aligned with the strategic plan.

The evaluation process for each initiative includes completion of the following checkpoints prior to project execution or project retirement:

- Executive Summary
- Project Management Plan (includes financial plan)
- Communication Plan (includes change management plan)
- Risk Management Plan (in accordance with PEC's Enterprise Risk Management Program)

To ensure consistency, a standardized template will be provided for each of these components. Once completed, the initiative is reviewed for approval or retirement. If approved, the project is executed (per Board of Directors approved budget) and is monitored using the balanced scorecard. Lessons learned will be captured upon retirement or completion of an initiative, and will provide input for process improvement.

THE LIFE CYCLE OF A BUSINESS INITIATIVE

As PEC moves forward with strategy execution development, a process will be in place for initiation evaluation and approval. Progress of these initiatives will be tracked using the balanced scorecard. Any new initiatives presented will be evaluated for alignment with the strategic themes and initiatives approved in the 2017-2020 Strategic Plan before moving forward. If approved, initiatives will be evaluated throughout their life cycle to ensure continued progress or, where necessary, dissolution. Figure 4 shows the PEC life cycle of a business initiative.

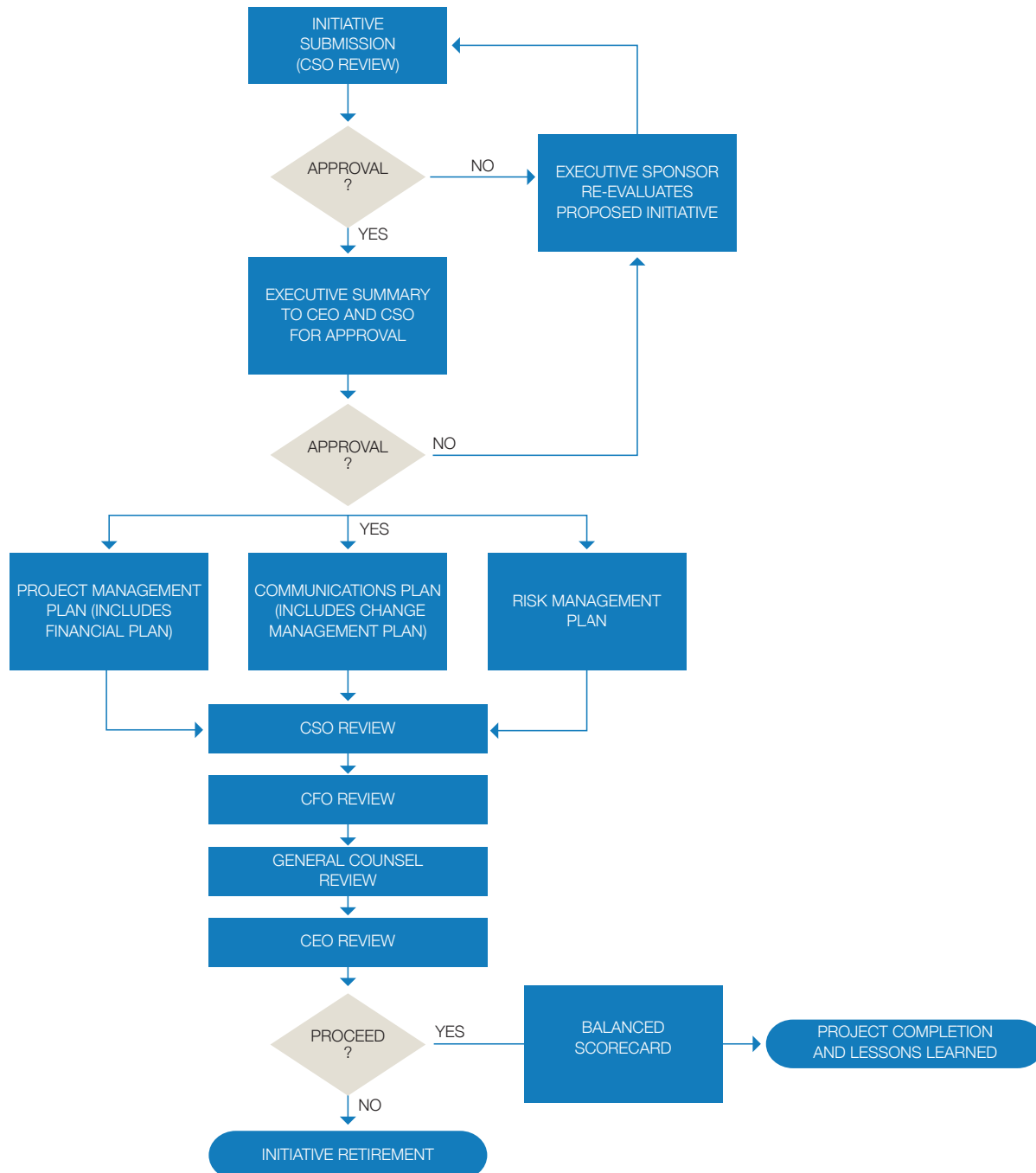


Figure 4 PEC Life Cycle of a Business Initiative

CSO - Chief Strategy Officer
CEO - Chief Executive Officer
CFO - Chief Financial Officer

PEC STRATEGIC THEMES AND INITIATIVES

To understand the business initiatives for the next two years, the table below shows the relationship starting from a strategic theme to the various business initiatives.

STRATEGIC THEMES	STRATEGIC INITIATIVES	BUSINESS INITIATIVES	PAGE #
OPTIMIZED OPERATIONS	Technology Planning	A.01 Enhanced Inventory Tracking System A.02 Technology Roadmap A.03 Biometric Screening	20 21 22
	Demand Side Management	A.04 Demand Response Program	23
	Power Supply Planning and Diversity	A.05 Cost of Service Study A.06 Energy Management Program	24 25
	Distributed Energy Resources (DERs)	A.07 Standby Generation and Storage Systems Study	26
	Enhanced System Planning	A.08 RESAP Audit and Performance A.09 Operational Maintenance and Grid Modernization A.10 Engineering Construction Work Plan	27 28 29
	Process Excellence (Business Planning)	A.11 Contact Center Solution Feasibility Study A.12 Expense Management System A.13 Loss Prevention (Energy Theft) Program A.14 Cybersecurity Plan and Training A.15 Organizational Enterprise Risk Management	30 31 32 33 34
	Emergency and Catastrophic Planning	A.16 Centralized Control Center Feasibility Study	35
	Member Engagement Opportunities	B.01 Outage Communication and Mapping Optimization B.02 Member Engagement Plan B.03 Prepay Options	37 38 39
	Strategic Energy Sales	C.01 Strategic Energy Sales Planning	41
	Broadband Opportunities	C.02 Broadband Feasibility	42
MEMBER ENGAGEMENT	Revenue Generating Services	C.03 On-Bill Financing Solutions (Empower Loans) C.04 Billing Partnerships Feasibility Evaluation	43 44
	Facilities Management and Planning	D.01 Security Assessment and Master Plan D.02 Facilities Master Plan D.03 Facilities Management Plan	46 47 48
SERVICE INNOVATION	Workforce Planning	D.04 Employee Engagement Plan D.05 Workforce Planning D.06 Succession Planning D.07 Compensation Market Study and Implementation	49 50 51 52
	Community Involvement	D.08 Power of Change Enrollment D.09 Youth Programs Plan D.10 Community Engagement Program	53 54 55
CORPORATE CITIZENSHIP			

Revised May 2017

MEASURING SUCCESS

All initiatives will be measured to ensure they meet four key areas of measurement. Those areas include operational effectiveness, financial impact, risk management and member value. PEC will use a balanced scorecard² approach as a way to measure success of executing strategy. Areas of focus for a balanced scorecard include:

- **Translating the Vision:** The scorecard forces management and board to align to the same metrics they use to operationalize strategy set by the board.
- **Communicating and Linking:** The scorecard becomes a communications tool up and down such that strategy becomes a tool everyone can use. The scorecard communicates overarching strategic initiatives and measures into measures appropriate for each group.
- **Business Planning:** The scorecard ensures that financial budgets support the strategic goals of the organization and that timelines, milestones and deliverables are identified and executed on time.
- **Feedback and Learning:** The scorecard makes provisions for identifying risks and to provide feedback on successes and challenges of each initiative.

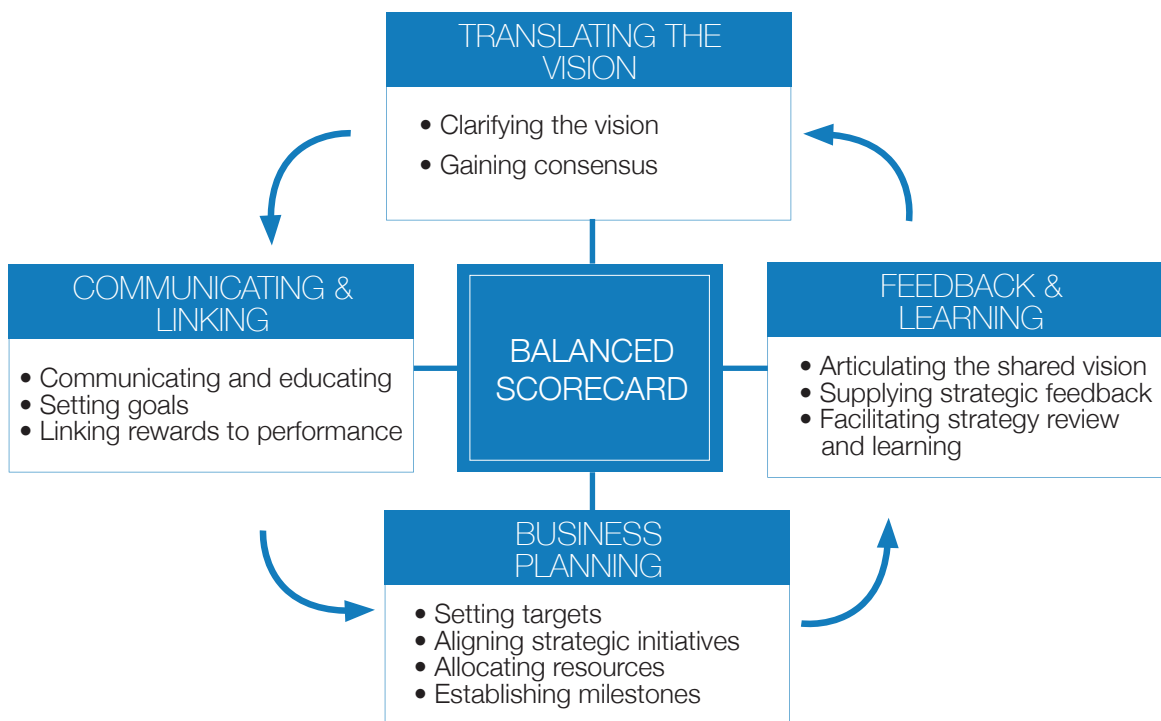


Figure 4: Cyclic Functionality of a Balanced Scorecard

This four-part cyclic process, as shown in Figure 4 will allow PEC to effectively and successfully execute the strategy set by the board of directors.

²The balanced scorecard is a strategic planning and management system that is used extensively in business and industry, government, and nonprofit organizations worldwide to align business activities to the vision and strategy of the organization, improve internal and external communications, and monitor organization performance against strategic goals. The scorecard was conceptualized by Robert S. Kaplan and David P. Norton

The scorecard provides the capability to create future value through investments in members, employees, processes, technologies and innovation, as shown in Figure 5 below³.



Figure 5: Using a Balanced Scorecard for Executing Strategy

Measures of success will be matched on board approved Key Performance Indicators (KPIs) to demonstrate the Cooperative is on target to meet the strategic destination set by the board of directors.

³Adapted from Robert S. Kaplan and David P. Norton, "Using the Balanced Scorecard as a Strategic Management System," Harvard Business Review (January-February 1996): 76.

CONCLUSION

PEC's strategic destination is clear: "over the next four years, PEC will be recognized as an industry leader by earning high member satisfaction." Changes in the industry, member expectations, and the evolving Cooperative requires the PEC team to innovate, be agile, and engage members at the highest possible level. PEC has been known for very strong reliability and the highest responsiveness to member needs. This business plan continues to enhance that very core of who we are as a cooperative, and to drive the organization into meeting the strategic plan set by the Board of Directors. This plan will provide cohesiveness within all the business units and create pathways of successful execution of initiatives.

Changes in technology and markets create an opportunity for a more adaptable, flexible, intelligent and agile grid. This business plan helps to provide more adaptability and is flexible as changes arise. As we see those changes, we will revise the business plan to ensure that we can continue to meet the goals.

PEC carries many strengths and resources. Member satisfaction is at the very core of the Cooperative's business model. The strong seven hundred plus employee base continues to deliver excellent service to the members. PEC is well-positioned to advance the strategic plan as set by the Board of Directors and serve as a leader in the industry, as defined by our strategic destination.



Pedernales Electric Cooperative, Inc.
P.O. Box 1
Johnson City, TX 78636-0001

pec.coop