

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 company 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.
- 3.3.2 Budget Amendment – A Board approved change to the Budget.
- 3.3. Capital Improvement Plan ("CIP") – The plan that outlines and describes planned expenditures for Electric Plant in Service the construction or acquisition of assets to be placed in service. Expenditures are budgeted by CIP project. The CIP projects are then grouped or categorized.
- 3.3.4 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.
- ~~3.3. 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").~~
- 3.3.7 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.
- ~~3.3.8~~ 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 intangible plant, production plant, transmission plant, distribution plant, regional transmission and market operation plant, and general plant (GP).
- 3.5.3.8 IT Framework - The CIP Budget eCategory 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 Service and includes land and land rights; structures and improvements; office furniture and equipment; transportation~~

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~~equipment; stores equipment; tools and shop and garage equipment; laboratory equipment; power operated equipment; communication equipment; miscellaneous equipment; and other tangible property.~~

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**. ~~The listing of CIP Budget Category Codes is provided in Appendix A.~~

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 ~~Federal Energy Regulatory Commission (“FERC”) FERC~~ Account group 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.~~

37311. Management – Consists of executive ~~level~~, vice president ~~level~~, director ~~level~~, and manager ~~level~~ positions. May include other positions or sSupervisors depending on the context.

38312. 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.

39313. 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 aAccount level. ~~(See example attached as Appendix B.)~~

~~310. Required Amendment – A Budget Amendment that will prevent a Major Variance.~~

~~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.~~

~~3.14.Strategic Plan – Consists of PEC’s vision, mission and values statements; key corporate metrics; and Board adopted goals and Management initiatives as defined in PEC’s Board approved strategic planning documents.~~

~~3.15.Utility Plant (UP) – Includes Electric Plant in Service 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 Finance Department staff (Budget Team) ~~coordinates~~ 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 ~~the strategic planning documents~~ 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. Should PEC become an RUS borrower, all budgeting processes will comply with the RUS regulations.~~

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42. Unused Funds.

- 4.2.1. Approved CIP Budget that is not used ~~may not, is not eligible to be spent elsewhere. Unused CIP Budget cannot~~ be transferred from one CIP ~~b~~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. nor from one CIP project to another CIP project even within the same CIP budget category without Board approval.~~
- 4.2.2. Unused Operating Budget ~~cannot may~~ be transferred from one FERC Account group to another FERC Account group ~~with~~ approval from the eExecutive manager over the ~~division~~Department.
- 4.2.3. Amounts ~~may not be transferred between the Operating Budget and the CIP Budget without Board approval.~~
- 4.2.2.4.2.4. 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.
- 4.3.1.4.3.2. Revenues are budgeted, but revenue variances will not require a Budget Amendment.
- 4.3.2.4.3.3. Purchased power and property taxes are budgeted, but variances will not require a Budget Amendment.
- 4.3.3.4.3.4. 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. Budgeting for amendments to line extensions -- The CIP includes a budget category 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.

44. Variances.

- 4.4.1. Reporting a Minor Variance to the Board is not required
- 4.4.1.4.4.2. Reporting a Reporting of Variances is determined by whether a Minor Variance or Major Operating Variance or Major CIP Variance has occurred 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.
5253. The Budget Team will provide monthly variance reports to each Department outlining actual spend as compared to the CIP Budget and Operating Budget.
5354. Each Department's Management is responsible for providing a monthly written explanations of Minor Variances to the Budget Team, ~~monthly.~~ This applies to both the CIP Budget and Operating Budget.
5455. 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. ~~Major CIP and Operating Variances will need to be presented to the Board by the Executive.~~

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~~5556~~ 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. ~~Executives, Vice Presidents, and other members of~~ 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

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

~~7.1.~~

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, <u>December 13, 2019</u>
Date Adopted:	March 21, 2016
Effective Date:	July 01, 2018
Amendment Dates:	July 01, 2018 <u>December 13, 2019</u>
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

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
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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
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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408	Taxes Other than Income (property tax & PUC gross receipts assessment)
INT	Interes 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.)