

Review of Eligible Voters by Director Voting District August 10, 2017

TO: Board of Directors

FROM: Don Ballard

SUBJECT: Review of Number of Eligible Voters in Director Voting Districts

The PEC Board, in 2016, adopted a single-member district voting methodology for use in PEC's Director Elections in 2017. Members now vote exclusively for the Director in the Member's Voting District that represents that Member's geographic district. The Board last adopted geographic and eligible voting Membership numbers of each Director Voting District on June 16, 2015.

As part of the Cooperative's district voting methodology, the Board must routinely review and approve the balance of eligible Member voters in each Director District.

Director District Election Requirements

Section 161.072 of the Texas Utilities Code generally provides for the election of Board Directors by Members. PEC's service area is divided into 7 districts that **equitably represent the Members**. The Board may revise the Director District boundaries, as necessary, **based upon equitable considerations determined by the Board of Directors**. Bylaws Art. III, Section 1. The Cooperative is governed by 7 Board Directors consisting of a Director from each of the Cooperative's 7 Director Districts. AOI Article IV; Bylaws Art. III, Section 1.

Each Member of a Director District is entitled to one vote upon each Director election for that individual Director District, and only Members of a Director District may vote in that Director District election. Bylaws Art. II, Section 6. Article II, Sections 5(b) and 6 of the PEC Bylaws require that at least 1,000 votes need to be cast in each individual Director district in order to meet the quorum for the Director District Election.

As a tax-exempt organization under the Internal Revenue Code Section 501(c)(12), PEC must operate on a cooperative basis, which is a more qualitative test. Under tax law, operating on a cooperative basis requires (1) subordination of capital (2) democratic control and (3) operation at cost. *Puget Sound Plywood v. Comm'n T.C. 305 (1965)*. When considering factors in democratic control, Director District elections are one such focus. Democratic control is generally established through our governing documents and Bylaws as outlined above. Compliance with the Bylaws is essential to operating on a cooperative basis. To ensure that our Members voting in the single-member voting districts have equitable representation and exercise a franchise of equal strength, PEC must periodically study and rebalance the boundaries of the Director. Equitable numbers among representation insures that each

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Member has the same relative voting strength. See IRS Private Letter Ruling 200042013 (utilizing and approving a standard where an "organization is organized according to a model of widely based participatory democracy in which all members are able to exercise a franchise of equal strength").

To act consistently with our Bylaws and maintain Member voting franchise of equal strength, the Board must routinely review, study and rebalance the number of eligible voting Members within each Director District to approximately balance voting members within each Director Districts.

Current Voting Members by Director District

The following information is provided so that the Board may now review current Director District voting members within each Director District.

The Cooperative has reviewed its records of total memberships ("Eligible Voters") in each Director District to ensure compliance of the bylaws, state, and federal statutes. The following graphs show membership growth per year and calculations based on even distribution of memberships as of August 7, 2017.

5-Year Average Growth (2016-2012)		3.64%
Year	Total Membership Count	Percentage of Membership Growth Year to Year
2017	**253,863	5.37%
2016	240,932	4.01%
2015	231,641	5.50%
2014	219,571	3.27%
2013	212,610	2.83%
2012	206,761	2.58%
2011	201,567	1.89%
2010	197,837	N/A

Figure 1: **Data as of August 7, 2017

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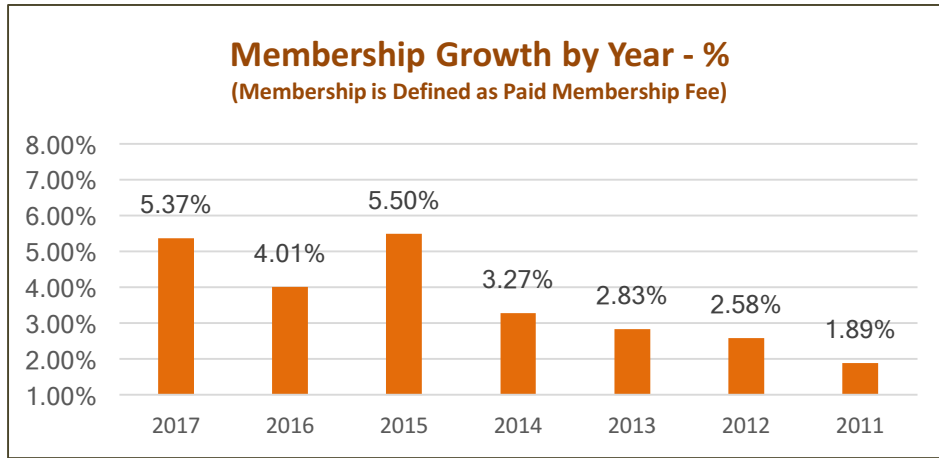


Figure 2: 2017 data is representative of January 1 – August 7, 2017

Voting District	# of Members	Even Distribution of Members	Variance from Even Distribution	% Variance from Even Distribution
1	35,342	36,266	924	2.61%
2	40,241	36,266	(3,975)	-9.88%
3	33,469	36,266	2,797	8.36%
4	36,192	36,266	74	0.20%
5	34,817	36,266	1,449	4.16%
6	35,795	36,266	471	1.32%
7	37,874	36,266	(1,608)	-4.25%
Unassigned	133			
Total	253,863			

Figure 3: Unassigned memberships equal accounts that are pending transactional changes in the system (new members, members moving to new locations, etc.).