

Rate Policy

PEDERNALES ELECTRIC COOPERATIVE, INC.

RATE POLICY

PEDERNALES ELECTRIC

COOPERATIVE, INC.

Board Adopted: July 18,
2011

PURPOSE:

1. To set forth policy relating to the development and implementation of electric rates that matches the strategic objectives of the Purpose:
Pedernales Electric Cooperative, Inc.

POLICY:

1. Commitment to Rate Design

- a. It is the policy of the Board of Directors of Pedernales Electric ("PEC" or "Cooperative to develop electric rates that allow the Cooperative"), in its mission is committed to provide safe, reliable and low-cost energy services that are reliable, cost based, considerate of the environment solutions for the benefit of our members. The Tariff and maintain the Business Rules for Electric Service ("Tariff") as approved by the Cooperative's financial strength.

2. Basic Fundamentals

- a. The Cooperative will prepare revenue requirements and cost of service
— studies as required to have information needed to develop rates.

1.1. b. Board of Directors ("Board") details the Cooperative's Rates will be developed. The purpose of the Rate Policy ("Policy") is to provide structure and guidance to design and implemented that: manage the Cooperative's Rates.

- i. Allocate cost across rate classes in an equitable manner
- ii. Minimize subsidies between classes. (Exceptions may occur due to a
— specific strategic initiative such as providing a low-income rate.)
- iii. Phase out subsidies within a class

iv.

2. Scope:

- 2.1. This Policy governs the design process of the Cooperative's Rates.
- 2.2. This Policy governs the planning, management, reporting, and oversight of the processes to manage the Cooperative's Rates.
- 2.3. This Policy governs the interactions with the annual business planning budget cycle and the enterprise risk management process.

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3. Definitions:

The definitions below are commonly utilized by power industry professionals. The definitions are meant to clarify this Policy and may not align with other uses of the terms.

3.1. Cost of Service Study – a study that identifies all costs associated with providing service to a member and/or member class.

3.2. Price Signals – information conveyed to members through the establishment or adjustment of member Rates, which provides transparency to the member regarding the Cooperative's cost to serve or provide services.

3.3. Rate(s) – any compensation, tariff, charge, fare, rental, or classification that is directly or indirectly demanded, observed, charged, or collected by the Cooperative for any service, product, or commodity and any rule, practice, or contract affecting the compensation, tariff, charge, fare, toll, rental, or classification.

3.4. Rate Plan – a Board approved plan that is updated annually and defines how the Cooperative anticipates recovering its costs.

4. Policy Statement and Implementation:

The Rate design process will be guided by the following objectives and in accordance with any applicable federal or state law as to Rates:

4.1. Defined Objectives

4.1.1. Equitable Rates – Costs will be allocated to members in a just and reasonable, equitable, non-discriminatory manner as supported by the Cost of Service Study.

4.1.2. Accurate Price Signals – Rates will strive to send accurate Price Signals to members, as metering infrastructure and billing software allows.

4.1.3. Stability – Rates will be designed to recover the Cooperative's costs, while limiting the impact of short term cost increases and decreases to member's rates.

4.1.4. Cost recovery – Rates and other charges for electric energy and other facilities, supplies, equipment, or services provided by the Cooperative must be sufficient at all times to:

4.1.4.1. Pay all operating and maintenance expenses necessary or desirable for the prudent conduct of its business;

4.1.4.2. Pay the principal and interest on the obligations issued or assumed by the Cooperative in performing the purpose for which the Cooperative was organized;

4.1.4.3. Create reserves to support the other defined objectives; and

4.1.4.4. Generate margins adequate to meet annual lender requirements and

—long-term financial objectives as per the Cooperative's equity-Equity Management Plan Policy.
management plan

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- ~~v. Coordinate local distribution rates with the rates of the Cooperative's
— power suppliers~~

~~3. Environmental Commitment~~

- ~~a. Develop and implement rates that encourage energy conservation
— efficiency~~
- ~~b. Promote the use of renewable resources~~
- ~~c. Develop effective demand-side management programs~~

~~4. Technology~~

- ~~a. Invest in technologies that:
 - ~~i. Allow the Cooperative to communicate to members the Cooperative's
— current cost of energy~~
 - ~~ii. Implement demand-side management programs~~
 - ~~iii. Enhance member service and reliability~~~~

~~5. Monitoring~~

~~Management should be held accountable for implementing rates as approved by the Board of Directors and routinely report to the Board as to the need to adjust rates to account for changes in cost of strategic initiatives.~~

4.2. Cost of Service Study

- 4.2.1. A Cost of Service Study will be conducted at least once every three years. The study will inform Rate design and will serve as an input to the Rate Plan.
- 4.2.2. The Cost of Service Study will include a review of all Rates listed in the Tariff.

4.3. Rate Plan

The Rate Plan will define how the Cooperative anticipates recovering its costs from members for services provided during the upcoming year. The Rate Plan will be presented to the Board annually and will be consistent and in alignment with the annual budget cycle. Approval by the Board will authorize management to execute the Rate Plan. The Rate Plan will have the following major components:

- 4.3.1. Forecasted revenue collections from Rates for at least a 12-month period;
- 4.3.2. Forecasted reserves for at least a 12-month period; and
- 4.3.3. Recommendations for changes to Rates for at least a 12-month period.

5. Procedure Responsibility:

5.1 General Roles and Responsibilities

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5.1.1. The Board has exclusive jurisdiction to set all terms of access, conditions, and Rates applicable to the services provided by the Cooperative other than as provided by Texas state or federal law.

5.2 Rates Committee

5.2.1. The Board establishes a Rates Committee comprised of the following roles:

5.2.1.1. Chief Executive Officer (CEO);

5.2.1.2. Chief Financial Officer (CFO);

5.2.1.3. Controller;

5.2.1.4. Vice President of Markets;

5.2.1.5. Rates Manager; and

5.2.1.6. An in-house Legal designee to serve as a legal advisor to the Rates Committee.

5.2.2. The Rates Committee is charged with the administration of this Policy and is granted authority and responsibilities to:

5.2.2.1. Oversee responsibilities and activities assigned as part of this Policy;

5.2.2.2. Recommend controls and periodically review the effectiveness of all aspects of this Policy; and

5.2.2.3. Retain outside advisors and organizations to assist the Cooperative in completing a Cost of Service Study or any other studies as needed in connection with this Policy.

5.2.3. A member of the Rates Committee will report at least quarterly to the Board on the implementation of the approved Rate Plan. The report to the Board will consist of the following:

5.2.3.1. Current cost recovery and forecasted cost recovery for at least 12 months;

5.2.3.2. Description of any adjustments needed to complete the execution of the Rate Plan; and

5.2.3.3. Recommendations if an event or condition arises that may result in an impact to the Cooperative's reserve balances or its ability to recover costs.

5.3. Rate Adjustments or Changes

5.3.1. The Rates Committee will propose Rate adjustments or changes to the Board as part of the Rate Plan and at such other times as necessary to meet the Cooperative's objectives as defined in this Policy.

5.3.2. The Board will consider all proposed Rates and Rate adjustments or changes and approve the proposed Rates and Rate adjustments which the Board determines appropriate.

5.3.3. Members may obtain information about Rates or adjustments or changes to Rates as may be publically available in open session materials for Board Meetings or otherwise in accordance with the Cooperative's Open Records Policy or state and federal law.

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5.3.4. Members may choose to participate and intervene in any Rate adjustments or changes by submitting comments in writing to the Board or providing comments at a Board Meeting or other member forum addressing Rates.

5.3.5. The Cooperative anticipates informing affected members of any new Rate, or Rate adjustment or change at least 30 days prior to the effective date of such Rate.

5.4. Administration; Monitor and Control

5.4.1. The Rates Committee will be responsible for the execution and documentation of functions needed to administer and implement the Rate Plan.

5.4.2. The Board will monitor the Rates of the Cooperative.

5.4.3. The Board will review and determine whether to authorize any adjustments or changes recommended by the Rates Committee.

6. Enforcement:

6.1. Violations of this Policy may result in disciplinary action, up to and including, termination.

7. Superseding Effect:

7.1. This Policy supersedes all previous policies and other binding resolutions concerning the subject matter herein.

7.2. A resolution or action by the Board as it pertains to Rates may not conflict with Texas state law or federal law applicable to the Cooperative.

8. References and Related Documents:

8.1. 16 U.S.C. § 2621 ("PURPA")

8.2. Chapter 41 of Texas Utilities Code

8.3. Chapter 161 of Texas Utilities Code

8.4. Articles of Incorporation

8.5. Bylaws

8.6. Tariff and Business Rules

8.7. Equity Management Plan Policy

8.8. Strategic Plan

8.9. Cost of Service Studies

8.10. PEC Budget

<u>Policy Title:</u>	<u>Rate Policy</u>
<u>Review Frequency:</u>	<u>Every Three Years</u>
<u>Last Reviewed:</u>	<u>XX,XX, 2019</u>
<u>Date Adopted:</u>	<u>July 2011</u>
<u>Effective Date:</u>	<u>XX,XX, 2019</u>

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<u>Amendment Dates:</u>	<u>XX,XX, 2019</u>
<u>Approver:</u>	<u>Board of Directors</u>
<u>Applies to:</u>	<u>Board of Directors</u> <u>Rates Committee: CEO, CFO, Controller,</u> <u>VP of Markets, and Rates Manager</u>
<u>Administrator:</u>	<u>Vice President of Markets</u>
<u>Superseding Effect</u>	<u>This Policy supersedes all previous policies</u> <u>and other binding resolutions concerning</u> <u>the subject matter herein.</u>