

Directors' Code of Conduct

~~Pedernales Electric Cooperative, Inc.~~

PEDERNALES ELECTRIC COOPERATIVE, INC.

I. Introduction

The Board of Directors (~~“Board”~~) of Pedernales Electric Cooperative, Inc. (~~“PEC”~~) or “Cooperative” has the responsibility under Texas law and PEC’s Articles of Incorporation and Bylaws to govern the business and affairs of PEC, except to the extent powers are reserved to PEC’s ~~members~~Members or have been duly delegated by the Board.

This Directors’ Code of Conduct ~~is to set~~ (~~“Code”~~) sets forth the fiduciary duties of ~~directors~~Directors of PEC (~~“Directors”~~) and to establish the standards of conduct for which they will be held accountable when serving on the Board. This Code ~~of Conduct~~ is not intended to supersede any specific policies that now or hereafter may apply to ~~directors~~Directors, but instead should be read in conjunction with those policies. All ~~directors~~Directors are expected to know and abide by the standards, values, and expectations that this Code ~~of Conduct~~ expresses.

II. Values

The Board establishes PEC’s strategic values that serve as an ethics and compliance foundation guiding PEC’s organizational behavior, decisions and direction. PEC’s values are generally adopted by the Board in PEC’s Strategic Plan. Directors shall periodically review these value statements. Directors shall understand, follow and comply with the standards and expectations expressed by PEC’s values.

III. Legal Duties

In carrying out their duties, ~~directors~~Directors are bound by the following fiduciary duties: duty of care; duty of loyalty; duty of candor; and duty of obedience.

A. A.——Duty of Care. Under the duty of care, ~~directors~~Directors should:

- 1) Exercise that degree of care that an ordinarily prudent person would exercise under similar circumstances.
- 2) Have or acquire minimum knowledge and skills necessary to govern PEC’s business and affairs. Every ~~director~~Director shall, within one year after first becoming a ~~director~~Director, take the necessary training to receive their Credentialed Cooperative Director Certificate from the National Rural Electric Cooperative Association (~~“NRECA”~~). In addition, ~~directors~~Directors are encouraged to obtain continuing education throughout their tenure to keep their knowledge current and to better fulfill their obligations as a ~~director~~Director.
- 3) Exercise independent judgment.
- 4) Attend regular or special meetings of the Board as required by the bylaws, to pay attention and avoid distractions during meetings, and to study materials sent prior to each Board meeting. It is the policy of the Board that cell phones and other personal digital assistants (~~e.g., Blackberries and iPhones~~) should not be used

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during any Board meeting, other than iPads which are provided to the Directors to help facilitate the meetings.

- 5) Be informed and request that the Board request more information if the ~~director~~Director feels it necessary to make an informed decision on matters before the Board.
- 6) Rely on subject matter experts, including PEC employees and external resources that are reasonably believed to be reliable and competent.

B. Duty of Loyalty. Under the duty of loyalty, ~~directors~~Directors should:

- 1) Act in good faith and in the best interests of PEC and its ~~members~~Members.
- 2) Place the interests of PEC over any personal interests and comply with the Board-approved Conflict of Interest Policy.
- 3) Act as a steward and prevent wasting of PEC assets including money, equipment, and employee resources, and not use such information for personal purposes.
- 4) Keep confidential all PEC information that is otherwise exempt from disclosure under PEC's Open Records Policy, and not use such information for personal benefit. Each ~~director~~Director recognizes that information that is covered by the attorney/client privilege is confidential information and waiver of the attorney/client privilege can only be done by Board action and no individual ~~director~~Director. If a ~~director~~Director receives a request for PEC information, the ~~director~~Director should ask the person making the request to make it through the Open Records Policy mechanism to ensure consistent treatment of PEC information.
- 5) Support the interests of PEC to elected officials in accordance with PEC's Legislative Policy.
- 6) Not represent to others that the ~~director~~Director is acting or speaking on behalf of the Board or PEC unless authorized in advance to do so by the Board. A ~~director~~Director shall disclose to the Board his or her receipt of any fees, expenses, or honoraria received by the ~~director~~Director in connection with any speaking engagement related to his or her capacity as a ~~director~~Director.
- 7) Not use or exploit his or her position as a Board member to achieve any special benefit or privilege that is not otherwise available to any other ~~member~~Member or ~~director~~Director.

C. Duty of Obedience. Under the duty of obedience, ~~directors~~Directors should:

- 1) Study and adhere to all obligations imposed by federal and state laws, rules, and regulations, and PEC's Articles of Incorporation, Bylaws, policies, and contracts.
- 2) Assist in ensuring that PEC as an organization complies with applicable laws, rules, and regulations.

D. Duty of Candor

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- The duty of candor requires all ~~directors~~Directors to reveal all information or interests that they may have and that may bear upon action being considered by the Board. This duty of candor requires Directors to reveal relevant information requested in an investigation as required by the Ethics and Compliance Reporting Policy.

III.V. Conduct with Respect to Fellow Directors

Regardless of any personal differences, ~~directors~~Directors should:

- 1) Demonstrate mutual respect.
- 2) Allow opportunity for every other ~~director~~Director to be heard on any matter being considered by the Board.
- 3) Abstain from revealing to persons outside of PEC any differences of positions among ~~directors~~Directors on matters considered by the Board in executive session. This standard does not preclude ~~directors~~Directors from revealing their own positions on matters.
- 4) Recognize that the Board has the responsibility and authority to enforce these standards of conduct, through reminders of this Code of Conduct and, if warranted, issuing a reprimand or censure approved by the Board or seeking legal or equitable relief against a ~~director~~Director.

IV.V. Director Access to PEC Information or Assistance from Staff

Directors shall contact the Chief Executive Officer ("CEO") or their designee with any requests for information or assistance from PEC staff. Directors may also contact the General Counsel, as needed, for information or assistance. The CEO will direct the request to the appropriate staff and ensure any information is disseminated and documented to the full Board and documented.

Every ~~director~~Director is entitled to have access to PEC data or information for a proper purpose that is germane to his or her duties as a ~~director~~Director to govern the business and affairs of the Cooperative, subject to the following:

- 1) A ~~director~~Director may place a request for information before the remainder of the ~~board~~Board at any time by requesting inclusion of the matter on an upcoming agenda for review and consideration by the full ~~board~~Board.
- 2) When a ~~director~~Director makes a specific request directly to the CEO or PEC ~~staff~~Executives, the remaining ~~directors~~Directors shall be timely notified of the request including the specific nature of the request and the ~~director~~Director making the request.
 - a) Staff shall include in the notice to all ~~directors~~Directors an estimate of the staff time required to respond to the request, any unusual expected complications

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in obtaining the information, and an estimate of the actual costs of providing the information requested.

- b) If the estimated cost of any request or of any series of requests of similar nature is less than \$500.00 or requires less than four staff hours to respond, the CEO or staff shall proceed to provide the requested information to the requesting ~~director~~Director, with copies to all ~~directors~~Directors.
- 3) If the costs or time to respond to any request or of any series of requests of similar nature exceeds \$500.00 and/or requires more than four staff hours to respond, CEO or staff shall place the request on the Board's next agenda.
- 4) If the requesting ~~director~~Director designates any request as an "emergency" and provides an explanation of the emergency with the request, the CEO or staff shall notify the Officers of the Board who shall consider the request and may seek the other ~~directors'~~Directors' determination on whether to proceed with immediate fulfillment of the request.
- 5) In any instance in which a ~~director~~Director has sought access to information not generally made available or reported to the Board, the CEO shall report on this to the Board and make the information available to all ~~directors~~Directors.
- 6) A ~~director~~Director shall keep confidential all PEC information that is not of public record or is otherwise exempt from disclosure under PEC's Open Records Policy, and shall not use that information for personal benefit.

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VI. Good Faith and Fair Play

Every ~~director~~Director shall deal in good faith and fair play with every other ~~director~~Director and the CEO in expressing his or her views, questions and concerns relating to PEC policies, rates, and programs. Good faith and fair play require:

- 1) All ~~directors~~Directors should reveal all information or interests that they may have and that may bear upon action being considered by the Board.
- 2) That ~~directors~~Directors will not so pursue a position, inquiry, or motion as to unduly harass other ~~directors~~Directors, any PEC employees, or independent contractors.
- 3) That ~~director~~Director communications with employees other than the CEO and the General Counsel shall be casual and conducted on a courteous basis, but not for the purpose of influencing an employee's position or attitude concerning his or her PEC-related activities.

VI. —

VII. Board Assessment

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~~The Board should, at least biennially, evaluate its own performance and accomplishments in relation to the goals and mission of PEC, and in relation to PEC's Articles of Incorporation, Bylaws, and policies.~~

External Communications

~~Generally, Directors should refer all media or other external response requests to PEC's Media Contact for response.~~

~~When a Director elects to publicly speak or write about Cooperative matters (an "External Communication"), the following provisions apply:~~

- ~~1) The Director must clearly state whether he or she is speaking as an individual board member or on behalf of the entire Board. If a Director includes language in the remarks substantially as follows, the Director will be deemed to have made it clear they are not speaking for PEC: "The views expressed herein/today are my own personal views and do not represent the official position or policy of PEC or its Board of Directors."~~
- ~~2) In the event that an External Communication is in a Director's individual capacity, no Cooperative staffing resources shall be used or costs incurred in making the External Communication without the prior approval of the CEO.~~
- ~~3) Upon request of a Director wishing to make an External Communication, the General Counsel shall review in advance the content of such External Communication to determine accuracy and potential liability.~~
- ~~4) These provisions do not apply to Directors in their capacity as candidates for election to the Board.~~
- ~~5) An External Communication does not include any communication regarding legislative matters covered separately under the PEC Legislative Policy.~~

VIII.

~~VII.~~ Policy Implementation and Responsibility

- ~~1) All ~~directors~~Directors and candidates, nominees, or appointees to the Board shall receive a copy of this ~~policy~~Code and attest to having received ~~the policy and understanding it~~ by executing the attached Affirmation and returning it to the Recording Secretary of the Board.~~
- ~~2) PEC's General Counsel shall review this ~~policy~~Code with the Board on an annual basis and discuss any personal liability implications resulting from violations.~~
- ~~3) It is the responsibility of each ~~director~~Director to understand ~~his or her~~their obligations under this ~~policy~~Code and to comply with this ~~policy~~Code.~~
- ~~4) The Board, acting through the President of the Board, shall ensure ~~that this policy is complied~~compliance with ~~the Code~~ by all ~~directors~~Directors.~~

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- 5) Any Director or employee who reports a suspected violation of the Code in good faith and based on a reasonable belief may do so without fear of harassment, retaliation, or retribution. No person reporting a good faith concern based on a reasonable belief about compliance with this Code shall be subject to retaliation in any form for making the report.
- 6) Directors who violate any laws, rules, regulations, PEC governing documents, or this Code are subject to appropriate disciplinary action in accordance with PEC's governing documents and policies.

Policy Title:	Directors' Code of Conduct
Review Frequency:	Annual <u>Every 5 Years</u>
Last Reviewed:	September 19, 2016 <u>XX/XX/XXXX</u>
Date Adopted:	May 21, 2012 <u>September 19, 2016</u>
Effective Date:	XX/XX/XXXX <u>May 21, 2012</u>
Amendment Dates:	May 21, 2012; July 16, 2012 ; August. 19, 2013; February 18, 2014 ; December 8, 2014; August 18, 2015 ; September 19, 2016, <u>XX/XX/XXXX</u>
Approver:	Board of Directors
Applies to:	Board of Directors
Administrator:	Board of Directors
Superseding Effect	This Policy supersedes all previous policies and memoranda concerning the subject matter. Only the Approver may authorize exceptions to this policy.

Affirmation Directors' Code of Conduct

I, the undersigned, have received, ~~read, understand~~ and will comply with PEC's Directors' Code of Conduct. I have had the opportunity to ask questions and understand PEC's Directors' Code of Conduct.

Signature

Printed name

Date

DRAFT