

PEC BOARD POLICY

AUTHORITY AND RESPONSIBILITIES

BOARD ADOPTED: September 15, 2008

AMENDMENTS: November 17, 2008, November 16, 2009, March 15, 2010, September 20, 2010, February 21, 2011, April 16, 2012, May 16, 2012, June 18, 2012, August 20, 2102

OBJECTIVES:

This policy defines the relationship between the Board of Directors and the management of PEC through the description of responsibilities and expectations and through the establishment of guidelines for the delegation of certain powers and duties. To the extent, if any, this policy conflicts with the PEC Bylaws, the Bylaws control. To the extent this policy conflicts with prior policy, this policy controls.

POLICY:

Responsibilities of the Board of Directors

The Board of Directors (Board) will establish the overall goals and objectives of PEC, review them on an ongoing basis and issue Board policies setting forth desired direction of management actions to attain such goals and objectives.

The Board will consider and establish policies in the best interest of the PEC membership and will retain management personnel with the capabilities to accomplish related policy goals. The Board will faithfully discharge its public trust by conducting its affairs in an ethical and sound business manner consistent with the fiduciary duties of the Directors. The Board and the Directors serving thereon will not direct the policies and actions of PEC from perspectives of private gain or personal advantage.

The Board will exercise reasonable diligence to ensure that the delegations to the Chief Executive Officer provided for in this policy statement are properly implemented.

The Board will articulate clear and coherent goals and statements of its expectations through its policies and plans. The Chief Executive Officer is responsible for day-to-day management of the organization with a view to the fulfillment of these goals and expectations.

Authority Reserved to the Board of Directors

The Board reserves to itself all authority and duties specified in and required by state law, PEC Bylaws, and Articles of Incorporation, including authority to:

- a) Hire, direct, compensate, and evaluate a competent Chief Executive Officer to whom it delegates authority and responsibility for the operation of PEC within the limits of this and other approved policies, programs, and budget.
- b) Appoint and approve the employment terms, and periodically review the performance of the PEC General Counsel, in consultation with the Chief Executive

- Officer.
- c) Consult with the General Counsel in a manner that acknowledges that the General Counsel's legal client is the Cooperative, as an entity.
 - d) Approve any amendment to the Bylaws.
 - e) Authorize borrowing of money by PEC.
 - f) Approve ethics or conduct policies regarding directors and officers of the Board.
 - g) Approve Election Procedures.
 - h) Approve compensation of Directors.
 - i) Approve the Tariff and PEC Service Policy, including provisions for member access to Cooperative records.
 - j) Approve bond indentures.
 - k) Authorize the initiation, settlement or setting of strategic direction of litigation involving PEC, except in cases where PEC is the defendant, all losses that might be suffered by PEC are fully insured against, and the insurer has assumed the defense of the litigation, in which case the insurer shall have the right to settle and direct the defense of the litigation in accordance with the applicable insurance policy.
 - l) Approve the strategic direction of governmental advocacy by PEC.
 - m) Approve agreements related to joint ownership of generation facilities.
 - n) Set all terms of access, conditions, and rates applicable to services provided by PEC.
 - o) Approve of sale or purchase or initiation of condemnation of any real property, other than the sale or purchase of easements.
 - p) Approve all contracts to buy goods and services with a value of greater than \$3 million, or with a period of performance of more than three years.
 - q) Approve change orders to Board-approved contracts which individually, or in the aggregate, exceed \$250,000.
 - r) Approve operational budget and capital improvement plan.
 - s) Approve any employment contract entered into by the Cooperative and a prospective employee or current employee.
 - t) Approve any swap agreement, derivative agreement, hedging agreement, margin account or any other similar instrument.
 - u) Approve any derivative contracts in connection with any Cooperative power purchase agreement.
 - v) Retain and direct the activities of qualified auditors to audit the internal controls over the financial processes of PEC.
 - w) Retain certified public accountants to conduct audits of the Cooperative's financial statements and review the auditor's opinion and report.
 - x) Retain an independent third-party to administer the Cooperative's whistleblower program, and oversee that program.
 - y) Conduct the meetings of the Board of Directors and of the Cooperative's members as provided in the Bylaws.

Responsibilities of the Chief Executive Officer

The Chief Executive Officer is responsible for carrying out the business and activities of PEC according to state law, PEC Bylaws, and Articles of Incorporation, and the direction of the Board.

The Chief Executive Officer will issue appropriate management procedures setting forth

desired direction of staff management and other employee actions consistent with the policies, goals, objectives, and directions of the Board.

The Chief Executive Officer will keep the Board adequately informed of operating conditions, financial positions and other key areas of operations, with reports on results of programs, plans, policies and PEC operations, the need for facilities, financing, operating requirements and other areas as requested or required.

The Chief Executive Officer will provide thorough well-organized information to the Board in a timely manner. Communications to the Board will be made forthrightly and with candor in the evaluation of the conduct of business and operations of PEC.

As provided in the Bylaws, the Chief Executive Officer each year will present to the Board objectives, goals, and priorities for its consideration.

Delegation of Authority to the Chief Executive Officer

The Board of Directors delegates to the Chief Executive Officer all general powers including those specified in the state law, PEC Bylaws, and Articles of Incorporation necessary to accomplish PEC's purpose, plans and objectives as approved by the Board, except for those specifically reserved to members or the Board by provisions of state law, the Bylaws and bond indentures.

The Board delegates to the Chief Executive Officer authority to perform all acts necessary or incidental to the management of the operations of PEC. This includes, but is not limited to, authority to oversee and make day-to-day decisions regarding finance, engineering, legal in consultation with the General Counsel, communications, government relations, human resources, existing facilities, electrical construction, distribution and transmission matters in order to effectuate Board policy. Specifically, the Chief Executive Officer has authority to:

- a) Prepare, execute, acknowledge as appropriate, and deliver all agreements, contracts, certificates, consents, indemnities, affidavits, receipts, and other instruments of any nature, necessary or appropriate in the ordinary course of PEC business. This includes authority to approve all routine, major, and non-routine purchases up to \$3 million, or for a period up to three years, or as otherwise authorized by the Board.
- b) Negotiate or approve any amendments to contracts otherwise approved by the Board to the extent any such amendments (individually or in the aggregate) do not exceed \$250,000.
- c) Delegate appropriate authority, except that which is to be retained by the Members or the Board of Directors by state law, PEC Bylaws or Articles of Incorporation, to the Chief Executive Officer's immediate staff and authorize such further delegation to management and staff, to the extent reasonably determined by the Chief Executive Officer and without prior approval, all activities outlined in their position descriptions.
- d) Consult with the General Counsel in a manner that acknowledges that the General

Counsel's legal client is the Cooperative, as an entity.

In the event a weather event or other emergency necessitates expenditures exceeding these amounts prior to Board approval, the Chief Executive Officer may authorize such expenditures if 1) before such authorization, the Chief Executive Officer issues a formal determination declaring and describing the emergency and the anticipated special expenditures, and 2) as soon as practicable the Chief Executive Officer informs the Board of the emergency and the need for special expenditures, and 3) as soon as practicable the Chief Executive Officer seeks the Board's ratification for the expenditures.

* Payments of debt service, taxes and monthly power bills are not subject to these limits.