

BYLAWS
OF
HAMILTON COUNTY ELECTRIC COOPERATIVE
ASSOCIATION
HAMILTON, TEXAS
(As Amended Through July 26, 2018)

ARTICLE I

MEMBERSHIP

SECTION 1.01. ELIGIBILITY. Any natural person, firm, association, legal entity, or body politic (each hereinafter referred to as “Applicant,”) that desires to purchase electric energy for delivery to any point in an area served by Hamilton County Electric Cooperative Association (hereinafter called the “Cooperative”) shall be eligible to become a Member (as hereafter defined) of, and, at one or more premises owned or directly occupied or used by such Applicant, to receive electric service from the Cooperative. No Applicant or Member may hold more than one membership in the Cooperative (“Membership”).

SECTION 1.02. APPLICATION FOR MEMBERSHIP.

(a) NEW MEMBERSHIP. By submission of an application for Membership (“Membership Application”), the Applicant shall agree to the following:

(i) Purchase electric power and energy from Cooperative;

(ii) Be bound by and to comply with all other provisions of Cooperative’s Articles of Incorporation, Bylaws, Tariffs, and all rules, regulations and rate schedules established pursuant thereto, as all the same then exist or may thereafter be duly adopted or amended (hereinafter referred to as “Membership Obligations”). Applicant shall execute a supplemental contract provided by the Cooperative for particular classifications of service as deemed required by the Board of Directors. The Membership Application shall be accompanied by the Membership Fee provided for in Section 1.03, together with any of the following: service security deposit, service connection deposit or fee, facilities extension deposit, and/or contribution in aid of construction that may be required by the Cooperative (“Additional Fees”), which

Membership Fee and Additional Fees, if any, shall be refunded in the event the Member Application is denied by Board resolution.

(b) RENEWAL OF PRIOR MEMBERSHIP APPLICATION. Any former Member of the Cooperative, by paying a new Membership Fee and any outstanding account plus accrued interest thereon at the Texas legal rate on judgments in effect when such account first became overdue, compounded annually, together with any Additional Fees that may be required by the Cooperative, may renew and reactivate any prior Membership Application to the same effect as though the Membership Application had been newly made on the date of such payment and such former Member shall resume Membership Obligations as set forth in this Section 1.02 for a new Member.

SECTION 1.03. MEMBERSHIP FEE; SERVICE SECURITY AND FACILITIES EXTENSION DEPOSITS; CONTRIBUTION IN AID OF CONSTRUCTION. The Membership Fee shall be as fixed from time to time by the Board of Directors. The Membership Fee, together with any Additional Fees or any combination thereof, if required by the Cooperative, shall entitle the Member to one service connection. A service connection deposit or fee, in such amount as shall be prescribed by the Cooperative, together with any Additional Fees or any combination thereof, if required by the Cooperative, shall be paid by the Member for each additional service connection requested by the Applicant or Member.

SECTION 1.04. JOINT MEMBERSHIP. In Application(s) for residential electric service, spouses, persons in a marriage legally recognized in Texas, occupying the same residential location and who each qualify as a Member will be accepted into a Membership jointly (“Joint Membership”) or, if one spouse is already a Member, will automatically convert such Membership into a Joint Membership upon the joinder of the other spouse. Except for circumstances in which spouse(s) have a separate Membership for an entity or unless otherwise clearly distinguished in the text, any and all provisions relating to the rights, powers, terms, conditions, obligations, responsibilities and liabilities of Membership shall apply equally, severally and jointly to Joint Membership, including the following:

(a) The presence at a meeting of either or both of such spouse(s) (“Joint Members”) shall constitute the presence of one Member and joint waiver of notice of the meeting;

(b) The vote of either or both Joint Members shall constitute, respectively, one vote: PROVIDED, however, that if both Joint Members are present but in disagreement on such vote, each Joint Member shall cast only one-half (½) vote;

(c) Notice to, or waiver of notice signed by, either or both Joint Members shall constitute, respectively, a joint notice of waiver of notice;

(d) Joint Member(s) shall notify Cooperative of a cessation of

marriage or cessation of the legally recognized relationship;

(e) Suspension or termination in any manner of either of the Joint Members shall constitute, respectively, suspension or termination of the Joint Membership, except as is provided in Section 2.06;

(f) Either, but not both Joint Members concurrently, shall be eligible to serve as a Director of the Cooperative, but only if both of the Joint Members meet the qualifications required thereof; and

(g) Neither of the Joint Members will be permitted to have any additional service connections except through their one Joint Membership or as otherwise determined by the Board of Directors.

SECTION 1.05. ACCEPTANCE INTO MEMBERSHIP.

Upon complying with the requirements set forth in Section 1.02, any Applicant shall automatically become a member of the Cooperative ("Member") on the date of the connection for electric service of the Applicant; PROVIDED, however, that the Board of Directors may by resolution deny any Membership Application and refuse to extend service upon the Board of Directors determination that the Applicant is not willing or is not able to satisfy and abide by the Cooperative's terms and conditions of Membership or that such Membership Application should be denied for other good cause consistent with the Cooperative Rules and Regulations.

SECTION 1.06. PURCHASE OF ELECTRIC POWER AND ENERGY; POWER PRODUCTION BY MEMBER; APPLICATION OF PAYMENTS TO ALL ACCOUNTS. The Cooperative shall make all reasonable efforts to furnish its Members with adequate and dependable electric service, although it cannot and therefore does not guarantee a continuous and uninterrupted supply thereof. Each Member shall:

(a) Except as may be otherwise permitted pursuant to the Cooperative's Distributed Generation policies, tariffs, rules and regulations, for so long as such premises are owned or directly occupied or used by such Member, purchase from the Cooperative all electric power and energy for use on all such premises to which electric service has been furnished by the Cooperative pursuant to the applicable policies, tariffs, rules and regulations of the Cooperative;

(b) Pay for such electric service purchased from the Cooperative at the times and in accordance with the policies, tariffs, rules, regulations, and rate schedules (including any monthly minimum amount that may be charged

without regard to the amount of electric power and energy actually used) established by the Board of Directors, and, if in effect, in accordance with the provisions of any supplemental contract that may have been entered into as provided for in Section 1.02. Production or use of electric energy on such premises, regardless of the source thereof, by means of facilities which shall be interconnected with Cooperative facilities, shall be subject to appropriate policies, tariffs, rules and regulations as shall be fixed from time to time by the Cooperative;

(c) Pay all other amounts owed by the Member to the Cooperative as and when such amounts become due and payable. When the Member has more than one service connection from the Cooperative, any payment by such Member for service from the Cooperative, shall be deemed to be allocated and credited on a pro rata basis to such Member's outstanding accounts for all such service connections, notwithstanding that the Cooperative's actual accounting procedures do not reflect such allocation and proration.

SECTION 1.07. MEMBER-FURNISHED CAPITAL. All amounts paid for electric service in excess of the cost thereof shall be furnished by Members as capital, and each Member shall be credited with the capital so furnished as provided in Article IX of these Bylaws.

SECTION 1.08. RESPONSIBILITIES FOR WIRING OF PREMISES AND METERING.

(a) MEMBER RESPONSIBILITY.

(i) Wiring of Premises. Each Member shall cause all premises receiving electric service from the Cooperative to become and to remain wired in accordance with the specifications of the National Electric Code, any applicable state code or local government ordinances, and of the Cooperative.

(ii) Meter Tampering or Bypassing; Damage to Cooperative Properties. Each Member shall:

(A) Make available to the Cooperative a suitable site, as determined by the Cooperative, whereon to place the Cooperative's physical facilities for the furnishing and metering of electric service and shall permit the Cooperative's authorized employees, agents and independent contractors to have access thereto safely and without interference, including, but not limited to, any and all actions or inactions by any person(s), hostile dogs and/or any other hostile source for meter reading, bill collecting and for inspection, maintenance, replacement, relocation, repair or disconnection of such facilities at all reasonable times;

(B) As part of the consideration for such service, be the Cooperative's bailee of such facilities and shall (i) accordingly desist from interfering and/or tampering with, impairing and/or altering the operation of or causing damage to such facilities; (ii) use the Member's best efforts to prevent

others from so doing; and (iii) take or omit any and all acts required by the Cooperative to safely, reliably, and efficiently construct, operate, and maintain Cooperative facilities.

(C) Provide such protective devices to Member's premises, apparatuses or meter base as the Cooperative shall from time to time require in order to protect the Cooperative's physical facilities and such facilities' operation and to prevent any interference with or damage to such facilities.

(iii) Indemnification. Each Member shall be responsible for and shall indemnify the Cooperative, its employees, agents and independent contractors, against death, injury, loss or damage:

(A) Resulting in any defect in or improper use or maintenance of all premises receiving electric service from the Cooperative by the Member and all wiring and apparatuses connected thereto or used thereon; and

(B) Including, but not limited to the Cooperative's cost of repairing, replacing or relocating any metering facilities and Cooperative's loss, if any, or revenues resulting from the failure or defective functioning of its metering equipment, in the event such facilities are interfered and/or tampered with, impaired and/or altered in such facilities' operation or damaged by the Member, or by any other person when the Member's reasonable care and surveillance should have prevented such.

(b) COOPERATIVE RESPONSIBILITY. Cooperative shall, in accordance with Cooperative's applicable service rules and regulations, adjust the Member's account for any overcharges for service that may result from a malfunctioning of Cooperative's metering equipment or any error occurring in the Cooperative's billing procedures. In no event shall the responsibility of the Cooperative for furnishing electric service extend beyond the point of delivery, as determined by the Cooperative in its sole discretion.

SECTION 1.09. MEMBER TO GRANT EASEMENTS TO COOPERATIVE AND PARTICIPATE IN REQUIRED COOPERATIVE LOAD MANAGEMENT PROGRAMS. Each Member shall:

(a) Upon Cooperative's request, execute and deliver to the Cooperative grants of easement and/or right-of-way over, on, and under such lands owned or mortgaged to the Member, and in accordance with terms and conditions as the Cooperative shall require for construction, operation, maintenance or relocation of the Cooperative's electric facilities for the furnishing of electric service to such Member(s) and/or any other Member(s) of

the Cooperative; and

(b) Participate in any required program and comply with related rates and service rules and regulations that may be established by the Cooperative to enhance load management, to more efficiently utilize or conserve electric energy, or to conduct load research.

ARTICLE II

MEMBERSHIP SUSPENSION AND TERMINATION

SECTION 2.01. SUSPENSION; REINSTATEMENT. Upon Member's failure, after the expiration of the time periods prescribed either in a specific notice to Member or in the Cooperative's rules and regulations, to pay any amount due the Cooperative or to cease any other non-compliance with the Member's Membership Obligations, a Member's Membership shall automatically be suspended; and such Member shall not, during such suspension, be entitled to receive electric service from the Cooperative or to cast a vote at any meeting of the Members. Payment of all amounts due the Cooperative, including any additional charges required for such reinstatement, and/or cessation of any other non-compliance with such Member's Membership Obligations within the final time limit provided in such notice or rules and regulations shall automatically reinstate the Member's Membership, in which event the Member shall thereafter be entitled to receive electric service from the Cooperative and to vote at the meetings of Cooperative's Members.

SECTION 2.02. TERMINATION BY EXPULSION; RENEWED MEMBERSHIP. Upon failure of a suspended Member to be automatically reinstated to Membership, as provided in Section 2.01, such Member may, without further notice, but only after due hearing if such is requested by said Member, be expelled by resolution of the Board of Directors at any subsequently held regular or special meeting of the Board. Any Member so expelled may, by delivering written notice to that effect to the Cooperative at least ten (10) days prior to the next meeting of the Members, appeal to and be present and heard at such meeting, which may vote approval of such expulsion or disapproval thereof, in which latter event such Member's Membership shall be reinstated retroactively to the date of such Member's expulsion. After any finally effective expulsion of a Member, such expelled Member may not again become a Member except upon new Membership Application therefor duly approved as provided in Section 1.05. The Board of Directors, acting upon principles of general application in such cases, may establish such additional terms and conditions for renewed Membership as it determines to be reasonably necessary to assure the Applicant's compliance with all his Membership Obligations.

SECTION 2.03. TERMINATION BY WITHDRAWAL OR

RESIGNATION. A Member may withdraw from Membership upon such generally applicable conditions as the Board of Directors shall prescribe and upon either:

(a) Ceasing to own or directly occupy or use all premises being furnished electric service by the Cooperative pursuant to the Member's Membership; or

(b) Except when the Board of Directors specifically waives such condition, abandoning totally and permanently the use of electric service on such premises.

SECTION 2.04. TERMINATION BY DEATH OR CESSATION OF EXISTENCE; CONTINUATION OF MEMBERSHIP IN REMAINING OR NEW PARTNERS. Except as provided in Section 2.06, the death of an individual Member shall automatically terminate such Member's Membership. The cessation of the legal existence of any other type of Member shall automatically terminate such Member's Membership: PROVIDED, however, that upon the dissolution for any reason of a Member that is a partnership, or upon the death, withdrawal or addition of any individual partner from such Member partnership, such Member's Membership shall continue to be held by such remaining and/or new partner or partners as continue to own or directly to occupy or use the premises being furnished electric service by the Cooperative pursuant to such Member's Membership in the same manner and to the same effect as though such Member's Membership had never been held by different partners: PROVIDED FURTHER, that neither a withdrawing partner nor said partner's estate shall be released from the obligation to pay any amounts then due the Cooperative.

SECTION 2.05. EFFECT OF TERMINATION. Upon the termination in any manner of a Member's Membership, such terminated Member or such terminated Member's estate, as the case may be, shall be entitled to a refund by the Cooperative of the terminated Member's Membership Fee (and to the terminated Member's service security deposit, if any, theretofore paid the Cooperative), less any amounts due the Cooperative, but neither the terminated Member nor the terminated Member's estate, as the case may be, shall be released from any debts or other obligations then remaining due to the Cooperative. Notwithstanding the suspension or expulsion of a Member, as provided for in Sections 2.01 and 2.02, such suspension or expulsion shall not, unless the Board of Directors shall expressly so elect, constitute such release of such Member from the Member's Membership Obligations as to entitle the Member to purchase from any other person or entity any electric power and energy for use at the premises to which such service has theretofore been

furnished by the Cooperative pursuant to such Member's Membership.

SECTION 2.06. EFFECT OF DEATH, LEGAL SEPARATION OR DIVORCE UPON A JOINT MEMBERSHIP. Upon the death of either spouse of a Joint Membership, such Membership shall continue to be held solely by the surviving spouse, in the same manner and to the same effect as though such Membership had never been joint: PROVIDED, however, that the estate of the deceased spouse shall not be released from any debts or obligations due the Cooperative on the date of death of the deceased spouse. Upon the legal separation or divorce of the Members of a Joint Membership, such Membership shall continue to be held solely by the one who continues directly to occupy or use the premises covered by such Membership in the same manner and to the same effect as though such Membership had never been joint: PROVIDED, however, that neither spouse shall be released from any debts or obligations due the Cooperative on the date of separation or divorce, and electric service to the premises may be terminated in accordance with the rules and regulations of the Cooperative, if any bills for electric service to the premises are unpaid.

SECTION 2.07. BOARD ACCEPTANCE OF MEMBERS RETROACTIVELY. Upon discovery that the Cooperative has been furnishing electric service to any person or entity other than a Member, Cooperative shall cease furnishing such electric service, unless such person or entity applies for, and the Board of Directors approves, Membership retroactively to the date on which such person or entity first began receiving such service, in which event the Cooperative, to the extent practicable, shall correct Cooperative's Membership and all related records accordingly.

ARTICLE III

MEETINGS OF MEMBERS

SECTION 3.01. ANNUAL MEETING. For the purposes of electing Directors, hearing and passing upon reports covering the previous fiscal year, and transacting such other business as may properly come before the meeting, the annual meeting of the Members shall be held during the month of August each year, at such place in one of the counties in Texas within which the Cooperative serves, on such date and beginning at such hour, as the Board of Directors shall from year to year fix: PROVIDED; however, that for cause sufficient to it, the Board of Directors may fix a different date for such annual meeting not more than thirty (30) days prior to August 1st or subsequent to August 31st. It shall be the responsibility of the Board of Directors to make adequate plans and preparations for, and to encourage Member attendance at, the annual meeting. Failure to hold the annual meeting at the designated time and place shall not work a forfeiture or dissolution of the Cooperative. The Cooperative's failure to hold an Annual or Regular Member Meeting does not affect an action taken by the Cooperative.

SECTION 3.02. SPECIAL MEETINGS. A special meeting of the Members may be called by (i) the President, (ii) by resolution of the Board of

Directors, (iii) by any three (3) Directors upon written request to the Board of Directors signed by all requesting Directors and delivered to the President of the Board of Directors of the Cooperative, or (iv) by petition signed by not less than ten percent (10%) of all the Members and delivered to the General Manager of the Cooperative, and it shall thereupon be the duty of the Secretary to cause notice of such meeting to be given as hereinafter provided in Section 3.03. Such a special meeting shall be held at such place in one of the counties in Texas within which the Cooperative serves, on such date, not sooner than forty (40) days after the date the special meeting is called, as above provided, and beginning at such hour as shall be designated by him or those calling or petitioning for the special meeting. Member(s) attending Special Meetings shall comply with the Board Policy No. 710 Request to Attend Monthly Board of Director's Meeting and Code of Conduct set forth in Board Policy No. 713 Matters and Code of Conduct at Member Meetings.

SECTION 3.03. NOTICE OF MEMBER MEETINGS.

(a) Written or printed notice of the place, day and hour of the meeting and, in the case of a special meeting or of an annual meeting at which business requiring special notice is to be transacted, the purpose or purposes of the meeting shall be delivered to each Member not less than ten (10) days nor more than sixty (60) days prior to the date of the meeting, either personally or by mail, by or at the direction of the President or the Secretary (and, in the case of a special meeting, at the direction of the person(s) calling the meeting). Any such notice delivered by mail may be included with Member service billings or as an integral part of or with the Cooperative's monthly newsletter.

(b) No matter which, as provided by law, or by the Cooperative's Articles of Incorporation or Bylaws, requires the affirmative votes of at least a three per centum (3%) of the total number of all the Cooperative's Members shall be acted upon at any meeting of the Members unless notice of such matter shall have been contained in the notice of the meeting.

(c) If mailed, such notice shall be deemed to be delivered when deposited in the United States mail addressed to the Member at his or her address as it appears on the records of the Cooperative, with postage thereon prepaid and postmarked at least ten (10) days prior to the meeting date. In making such computation, the date of the meeting shall not be counted.

(d) Failure of any Member to receive a notice of an annual or special meeting of the Members shall not invalidate any action, which may be taken by the Members at any such meeting.

(e) The attendance in person of a Member at any meeting of the Members shall constitute a waiver of notice of such meeting unless such attendance shall be for the express purpose of objecting to the transaction of any business, or one or more items of business, on the ground that the meeting shall not have lawfully called or convened. Any Member attending any meeting for the purpose of making such objection shall notify the Secretary prior to or at the beginning of the meeting of his or her objection.

SECTION 3.04. QUORUM. Five per centum (5%) of the total number of all Members of the Cooperative shall constitute a quorum for the transaction of business at all meetings of the Members. Members voting by mail shall be counted as if present provided that if less than a quorum is present at any meeting, a majority of those present in person may adjourn the meeting without further notice.

SECTION 3.05. VOTING. Each Member shall be entitled to only one vote. All questions shall be decided by a vote of a majority of the Members voting by mail, except as otherwise provided by law, the Articles of Incorporation or Bylaws. Voting by proxy shall not be permitted. The Secretary shall enclose with the notice of such meeting an exact copy of any motion or resolution to be acted upon and such Member shall express his/her vote thereon by placing a mark (“X”) or check (“√”) in the space provided therefor opposite each such motion or resolution. The Member shall enclose each such copy so marked in a sealed envelope bearing his/her name and address to the Secretary. When such written vote so enclosed is received by the Cooperative by mail from any Member, it shall be counted as a vote of such Member. If spouses hold a Joint Membership, such spouses shall jointly be entitled to vote by mail as provided in this Section. The failure of any Member to receive a copy of any motion or resolution shall not invalidate any action which may be taken by the Members.

Except as otherwise provided by the Board before or at a Member Meeting, Members attending the Member Meeting may consider, vote, or act only upon a matter described in the notice of the Member Meeting and for which the power to consider, vote, or act is conferred upon Members by law, the Articles of Incorporation, or Bylaws. Members may raise or discuss a matter at a Member Meeting that was not described in the notice of the Member Meeting only if: (1) at least one hundred fifty (150) unsuspended Members sign one or more written requests to raise or discuss the matter; and (2) the Cooperative receives all written requests at least forty-five (45) days before the Member Meeting at which the matter may be raised or discussed.

SECTION 3.06. ORDER OF BUSINESS. The order of business at the annual meeting of the Members and, insofar as practicable or desirable, at all other meetings of the Members shall, unless otherwise set forth by the Board of

Directors, be essentially, as follows:

- (a) Report on the existence of a quorum;
- (b) Presentation and consideration of any reports of officers, Directors and committees, if any;
- (c) Report on the notice of the meeting and proof of the due giving thereof, or of the waiver or waivers of notice of the meeting, as the case may be;
- (d) Taking necessary action upon unapproved minutes of previous meetings of the Members;
- (e) Results of election of Directors;
- (f) Unfinished business, if any;
- (g) New business, if any; and
- (h) Adjournment.

Notwithstanding the foregoing, the Board of Directors or the Members themselves may from time to time establish a different order of business for the purpose of assuring the earlier consideration of and action upon any item of business the transaction of which is necessary or desirable in advance of any other item of business; PROVIDED, however, that no business other than adjournment of the meeting to another time and place may be transacted until and unless the existence of a quorum is first established.

SECTION 3.07. CODE OF CONDUCT AT MEMBER MEETINGS.

(a) In order to conduct meetings of the Members in an orderly, fair, safe, and efficient manner, at all meetings in which a Member wishes and is permitted to attend, to speak or otherwise address attendees on a matter, whether at a Members' Annual Meeting, Members' Special Meeting, or Board Meeting in which such Member has complied with Section 5.01(b) on Request to Speak at Board Meeting, such Member shall strictly adhere to the Code of Conduct as provided in Board Policy 713, except and to the extent the presiding officer at such meeting, in such officer's sole discretion, determines that any particular Code of Conduct requirement is not applicable for such meeting.

(b) Procedures required to be permitted to speak or otherwise address attendees shall be in accordance with Board Policies 710 and 713.

ARTICLE IV

SECTION 4.01. NUMBER AND GENERAL POWERS. The business and affairs of the Cooperative shall be managed by a board of seven (7) directors (herein referred to individually as “Director” and collectively as “Directors”, “Board of Directors” or “Board”) or under the authority of such Board of Directors, and subject to the Board’s direction and oversight. The Board shall exercise all of the powers of the Cooperative except such as are by law or by the Cooperative’s Articles of Incorporation or Bylaws conferred upon or reserved to the Members and such as the Board may delegate to or authorize to be performed by the Cooperative’s management and employees.

SECTION 4.02. QUALIFICATIONS. A Director or Director candidate must comply with the following Bylaw provisions:

(a) DIRECTOR QUALIFICATIONS. To be eligible to become or remain a Director of the Cooperative, a person shall:

(i) Be a natural person;

(ii) Be a Member of the Cooperative for a period of twenty-four (24) consecutive months immediately prior to nomination or petition for election;

(iii) Be a Member in good standing with the Cooperative and shall not have (or if a Joint Member with a spouse who has) one or more accounts with the Cooperative or its affiliates that are not in good financial standing, or have (or if a Joint Member with a spouse who has) a controlling interest in another entity, association, organization, or trust that has one or more accounts with the Cooperative or its affiliates that are not in good financial standing;

(iv) As provided in Article I, Section 1.04(f) of the Bylaws, in a Joint Membership, either spouse may serve as a Director, but not simultaneously, and only if both spouses meet the qualifications for Director as stated herein; otherwise, neither spouse may serve as Director;

(v) For at least twenty-four (24) consecutive months immediately prior to nomination or petition for election and throughout such person’s term as Director if elected, maintain a principal place of residence, as required to claim such person’s residence homestead exemption pursuant to Chapter 11 of the Texas Tax Code, in the District for which such person seeks election or was elected;

(vi) Receive electric service from the Cooperative at such principal place of residence described in Section 4.02 (a)(v);

(vii) Not be employed by the Cooperative or have been an employee of the Cooperative within twenty (20) years of serving on the Cooperative's Board of Directors;

(viii) Not be a close relative of an incumbent Director or of an employee of the Cooperative, unless otherwise determined by the Board of Directors in its sole discretion;

(ix) Not hold office as a Director who is an incumbent or candidate for public office for which a salary or wage is paid;

(x) Not be in any way employed by or financially associated in a competing enterprise, or a business selling electric energy or selling products or services to the Cooperative;

(xi) Unless excused by the Board of Directors, which action shall be noted in the minutes of that meeting of the Board of Directors, not miss three (3) consecutive regular meetings of the Board of Directors, or miss three (3) regular meetings of the Board of Directors within the most recent twelve (12) month period; and

(xii) Not have been convicted of a felony in this State, any other State in the United States, or received the equivalence of a felony conviction in any other country.

(b) **DIRECTOR DISQUALIFICATIONS.** After being elected or appointed, if a Director does not comply with all Director Qualifications, the Board shall disqualify the Director and the individual is no longer a Director if:

(i) The Board notifies the Director in writing of the basis for the disqualification and provides the Director an opportunity to comment regarding the Board's proposed disqualification; and

(ii) Within twenty (20) days after the Board notifies the Director of the proposed disqualification, the Director neither complies with nor meets the Director Qualifications.

SECTION 4.03. ELECTION. Election of Directors shall be held annually by mail-in ballot in accordance with Section 4.07 of the Bylaws.

SECTION 4.04. TENURE. Directors shall serve a term of three (3) years or until Director(s)' successor(s) has been elected or appointed. Upon the Directors' election, Directors shall, subject to the provisions of the Bylaws with respect to the removal of Directors, serve until the annual meeting of the Members of the year in which such Directors' terms expire or until such Directors' successors shall have been elected and shall have qualified. Whether elected or appointed, Directors shall have qualified subject to the provisions of the Bylaws with respect to removal or resignation of Directors. Failure of an election for a given year shall allow the incumbents whose directorships would have been voted on to hold over only until the next Member meeting at which a quorum is present.

SECTION 4.05. DIRECTORATE DISTRICTS.

(a) The territory served by the Cooperative shall be divided into the following seven (7) Directorate Districts with each District represented by one Director, who has and maintains his or her principal place of residence in that District, as provided in Section 4.02 (a)(v) of this Article:

- (1) The area West of U.S. Highway 281 in Hamilton County, designated as "**District 1**";
- (2) The area East of U.S. Highway 281 in Hamilton County, designated as "**District 2**";
- (3) The area in Coryell County, designated as "**District 3**";
- (4) The area East of U.S. Highway 281 in Lampasas County, designated as "**District 4**";
- (5) The area West of U.S. Highway 281 in Lampasas County, including all the area in San Saba and Llano Counties, designated as "**District 5**";
- (6) The area South of U.S. Highway 84 in Mills County and West to the Cooperative boundary line, designated as "**District 6**"; and
- (7) The area North of U.S. Highway 84 bounded on East by Hamilton County line and on West by Cooperative boundary line, designated as "**District 7.**"

(b) The Board of Directors shall annually review and if necessary, re-divide and/or geographically relocate Districts to ensure that Director Districts equitably represent the Members.

(c) Within sixty (60) days following any Director District revision, and at least sixty (60) days before the next Annual Member Meeting, the

Cooperative shall notify any Members affected by the Director District revision by mail using direct mail, billing inserts, or the Cooperative's monthly magazine.

(d) No Director District revision may: (i) increase an existing Director's term, or (ii) shorten any existing Director's term unless the affected Director gives written consent.

SECTION 4.06. NOMINATIONS.

(a) NOMINATION BY COMMITTEE.

(1) COMMITTEE QUALIFICATIONS. It shall be the duty of the Board of Directors to appoint, not less than thirty (30) days prior to the date on which Directors are to be elected, a Committee on Nominations, consisting of:

(i) Not less than five (5) and no more than eleven (11) Members of the Cooperative;

(ii) Members who are not existing Cooperative employees, agents, officers, Directors or known candidates for Director;

(iii) Members who are not close relatives (as hereinafter defined) or Members of the same household of such existing employees, agents, officers, Directors or known candidates for Director; and

(iv) Members who are selected from different geographical sections so as to ensure equitable representation, including at least one (1) Member from each of the Directorate Districts to be filled at the election.

(2) COMMITTEE NOMINATION PROCESS.

(i) The Committee shall prepare and post at the principal office of the Cooperative at least twenty (20) days prior to the date of the election of Directors a list of nominations for Directors to be elected, listing separately the nominee(s) for each Directorate District from or with respect to which a Director must, pursuant to this Section, be elected.

(ii) The Committee may include as many nominees for

any Director to be elected from or with respect to any Directorate District as it deems desirable.

(b) **NOMINATION BY PETITION.** Any one hundred fifty (150) or more Members of the Cooperative, acting together, may submit to the Secretary of the Cooperative additional nominations in writing over such Members' signatures, listing the Members' nominee(s) in like manner, not less than forty-five (45) days prior to the date the votes are to be counted, and the Secretary shall post such nominations at the same place where the list of nominations made by the Committee is posted.

(c) **NOTICE OF NOMINATIONS.** The Secretary shall mail to the Members with the notice of the meeting of the Members at which Directors are to be elected, or separately, but at least ten (10) days prior to the date of such meeting, a statement of the names of all nominee(s) for each Directorate District from or with respect to which one or more Directors must be elected, showing clearly those nominated by the Committee and those nominated by petition, if any. Notice of nominations shall be in accordance Section 4.06 of the Bylaws, Subsection (a)(2)(i) for nominations by Committee on Nominations and Subsection (b) for nominations by petition.

Notwithstanding the provisions contained in this Section, failure to comply with any of such provisions shall not affect in any manner whatsoever the validity of any action taken by the Board of Directors after the election of Directors.

SECTION 4.07. VOTING FOR DIRECTORS; VALIDITY OF BOARD ACTION. The election of Directors shall be held annually by mail-in ballot. Each Member shall be entitled to cast only one vote for each Directorate District for which a Director is to be elected. Ballots marked in violation of the foregoing restriction with respect to one or more Directorate Districts shall be invalid and shall not be counted with respect to such District or Districts. Notwithstanding the provisions contained in this Section, failure to comply with any of such provisions shall not affect in any manner whatsoever the validity of any action taken by the Board of Directors after the election of Directors.

SECTION 4.08. REMOVAL OF DIRECTORS BY MEMBERS.

(a) **PETITION.** Any Member may bring one or more charges for cause against any one or more Directors and may request the removal of such Director(s) by reason thereof by filing with the Secretary such charge(s) in writing together with a petition signed by not less than ten percent (10%) of the total Membership of the Cooperative, which petition shall:

(i) Call for a special meeting of the Members, the stated purpose of which shall be to hear and act on such charge(s) and, if one or more Directors are recalled, to elect such Director(s)' successor(s) and specify the place, time and date thereof not less than forty (40) days after filing of such petition, or which requests that the matter be acted upon at the subsequent

annual meeting if such meeting will be held no sooner than forty (40) days after the filing of such petition;

(ii) State, on each page, in the forepart thereof, the name(s) and address(es) of the Member(s) filing such charge(s), a verbatim statement of such charge(s) and the name(s) of the Director(s) against whom such charge(s) is(are) being made;

(iii) Be signed by each Member in the same name as such Member is billed by the Cooperative and shall state the signatory's address as the same appears on such billings.

(b) NOTICE TO MEMBERS. Notice of such charge(s) verbatim, of the Director(s) against whom the charge(s) have been made, of the Member(s) filing the charge(s) and of the purpose of the meeting shall be contained in the notice of the meeting, or separately noticed to the Members no less than ten (10) days prior to the Member meeting at which the matter will be acted upon; PROVIDED, however, that the notice shall set forth only twenty (20) of the names (in alphabetical order) of the Members filing one or more charges if twenty (20) or more Members file the same charge(s) against the same Director(s).

(c) NOTICE TO DIRECTOR. Such Director(s) against whom such charges are being made shall be informed in writing of the charges after the petition has been validly filed with the Secretary of the Cooperative and at least forty-five (45) days prior to the meeting of the Members at which the charge(s) are to be considered, and shall have an opportunity at the meeting to be heard in person, by witnesses, by counsel or any combination thereof, and to present evidence on respect of the charge(s); and the person(s) bringing the charge(s) shall have the same opportunity, but must be heard first.

(d) VOTE TO REMOVE DIRECTOR(S). The question of the removal of such Director(s) shall, separately for each Director if more than one Director has been charged, be considered and voted upon at such meeting, and any vacancy created by such removal shall be filled by vote of the Members at such meeting without compliance with the foregoing provisions with respect to nominations, except that nomination shall be made from the floor; PROVIDED, however, that the question of the removal of a Director shall not be voted upon at all unless some evidence in support of the charge(s) against the Director being charged shall have been presented during the meeting through oral statements, documents or otherwise.

(e) REPLACEMENT DIRECTOR(S). Director(s) elected to replace a removed Director(s) shall be from or with respect to the same Directorate District as was the removed Director(s) and shall serve the unexpired portion of the removed Director's term.

SECTION 4.09. VACANCIES. Except as provided in Article IV, Section 4.08, (REMOVAL OF DIRECTORS BY MEMBERS), a vacancy occurring on the Board as the result of death, retirement, or resignation of a Director, or geographic relocation or realignment of a district, shall be filled by the affirmative vote of a majority of the remaining Directors on the Board. The new Director must comply with Article IV, Section 4.02, (DIRECTOR QUALIFICATIONS). Any Director selected by the Board to fill any vacant Director position shall serve the unexpired term of the vacated, newly relocated or realigned District Director position.

SECTION 4.10. COMPENSATION; EXPENSES.

(a) FIXED FEE. Directors shall, as determined by resolution of the Board of Directors, receive, on a per diem basis, a fixed fee, which may include insurance benefits, for the following: (i) attending meetings of the Board of Directors and, when such has had prior approval of the Board of Directors; and (ii) with prior approval of the Board of Directors, the performance of other Cooperative business. The fee fixed for attending Board meetings need not be the same as the fee or fees fixed for performing other Cooperative business.

(b) ADVANCEMENT OR REIMBURSEMENT. Directors shall also receive advancement or reimbursement of any travel and out-of-pocket expenses actually, necessarily and reasonably incurred in attending such meetings and performing such business.

(c) DIRECTOR COMPENSATION ONLY. No Director shall receive compensation for serving the Cooperative, in any other capacity, nor shall any close relative of a Director receive compensation for serving the Cooperative, unless the payment and amount of such compensation shall be specifically authorized by a vote of the Board of Directors or such payment and amount shall be specifically authorized by the Board of Directors upon their certification of such as an emergency measure; PROVIDED, however, that a Director who is also an officer of the Board, and who as such officer performs regular or periodic duties of a substantial nature for the Cooperative in its fiscal affairs, may be compensated in such amount as shall be fixed and authorized in advance of such service by the Board of Directors.

SECTION 4.11. RULES, REGULATIONS, TARIFFS, RATE SCHEDULES AND CONTRACTS. The Board of Directors shall have power to make, adopt, amend, abolish and promulgate such rules, regulations, tariffs, rate schedules, contracts, security deposits and any other types of deposits, payments or charges, including contributions in aid of construction, not inconsistent with law or the Cooperative's Articles of Incorporation or Bylaws, as the Board of Directors may deem advisable for the management,

administration and regulation of the business and affairs of the Cooperative.

SECTION 4.12. ACCOUNTING SYSTEM REPORTS. The Board of Directors shall cause to be established and maintained a complete accounting system of the Cooperative's financial operations and condition, and shall, after the close of each fiscal year, cause to be made a full, complete and independent audit of the Cooperative's accounts, books and records reflecting financial operations during, and financial condition as of the end of, such year. A full and accurate summary of such audit reports shall be submitted to the Members at or prior to the succeeding annual meeting of the Members. The Board may authorize special audits, complete or partial, at any time and for any specified period of time.

SECTION 4.13. "CLOSE RELATIVE" DEFINED. As used in the Bylaws, "close relative" means a person who, by blood or marriage, including half, foster, step and adoptive kin, is either a spouse, child, grandchild, parent, grandparent, brother or sister of the principal.

ARTICLE V

MEETINGS OF DIRECTORS

SECTION 5.01. REGULAR MEETINGS.

(a) A regular meeting of the Board of Directors shall be held monthly at such date, time and place in Hamilton County, Texas, or at such place as the Board of Directors may provide by resolution or by means of communication, including telephone and video conferencing, by which all Directors participating in the meeting may reasonably and verifiably identify themselves, and approximately, simultaneously and instantaneously communicate with each other during the Board meeting. Such regular monthly meeting may be held without notice other than such resolution fixing the date, time and place thereof, except when business to be transacted thereat shall require special notice; PROVIDED, however, that any Director absent from any meeting of the Board of Directors at which such a resolution initially determines or makes any change in the date, time or place of a regular meeting shall be entitled to receive written notice of such determination or change at least five (5) days prior to the next meeting of the Board of Directors; AND PROVIDED FURTHER, that if a policy therefore is established by the Board of Directors, the President may change the date, time or place of a regular monthly meeting for good cause and upon not less than five (5) days' prior written notice thereof to all Directors.

(b) Members may request to meet with the Board of Directors if a

matter is not resolved to the Member's satisfaction after meeting with the Cooperative management in accordance with Board Policy 710.

SECTION 5.02. SPECIAL MEETINGS. Special meeting of the Board of Directors may be called by the President, Board resolution, or by any three (3) Directors, and it shall thereupon be the duty of the Secretary to cause notice of such meeting to be given as hereinafter provided in Section 5.03. The Board of Directors, the President, or the Directors calling the meeting shall fix the date, time and place for the meeting, which shall be held in one of the counties in Texas within which the Cooperative serves, unless all Directors consent to its being held in some other place in Texas or elsewhere. Special meetings, upon proper notice as otherwise provided in Section 5.03, may also be held via telephone conference call, without regard to the actual location of the Directors at the time of such a telephone conference meeting, if all the Directors consent thereto.

SECTION 5.03. NOTICE OF DIRECTORS MEETINGS.

(a) Written notice of the date, time, place (or telephone conference call) and purpose or purposes of special meeting of the Board and, when the business to be transacted thereat shall require such, of any regular meeting of the Board of Directors shall be delivered:

(i) To each Director not less than five (5) days prior thereto;

(ii) Either personally or by mail; and

(iii) By or at the direction of the Secretary or, upon a default in this duty by the Secretary, by the one or ones calling such meeting, in the case of a special meeting or by any Director in the case of a meeting whose date, time and place have been already fixed by Board resolution.

(b) If mailed, such notice shall be deemed to be delivered when deposited in the United States mail, addressed to the Director at his or her address as it appears on the records of the Cooperative, with first class postage thereon prepaid, and postmarked at least five (5) days prior to the meeting date.

(c) The attendance of a Director at any meeting of the Board of Directors shall constitute a waiver of notice of such meeting unless such attendance shall be for the express purpose of objecting to the transaction of any business, or of one or more items of business, on the ground that the meeting shall not have been lawfully called or convened.

SECTION 5.04. QUORUM AND ACTION. The presence in person of a majority of the Directors in office shall be required for the transaction of business and the affirmative votes of a majority of the Directors present shall be required for any action to be taken; PROVIDED, however, that a Director who by law or the Bylaws is disqualified from voting on a particular matter shall not, with respect to consideration of and action upon that matter, be counted in

determining the number of Directors in office or present; AND PROVIDED FURTHER, that if less than a quorum be present at a meeting, a majority of the Directors present may adjourn the meeting from time to time, but shall cause the absent Directors to be duly and timely notified of the date, time and place of such adjourned meeting. A regular or special meeting of the Board of Directors may be conducted through a means of communication, including telephone and video conferencing, by which all Directors participating in the meeting may reasonably and verifiably identify themselves, and approximately, simultaneously and instantaneously communicate with each other during the Board meeting. A Director participating by such means of communication shall for all purposes be deemed present at the meeting.

ARTICLE VI

OFFICERS: MISCELLANEOUS

SECTION 6.01. NUMBER AND TITLE. The officers of the Cooperative shall be a President, Vice President, Secretary, and Treasurer, and such other officers as may from time to time be determined by the Board of Directors. The offices of Secretary and Treasurer may be held by the same person.

SECTION 6.02. ELECTION AND TERM OF OFFICE. The four officers named in Section 6.01 shall be elected by secret written ballot without prior nomination, if requested, otherwise by nomination and oral vote, annually by and from the Board of Directors at the first meeting of the Board held after the annual meeting of the Members. If the election of such officers shall not be held at such meeting, it shall be held as soon thereafter as the Board of Directors deem convenient. Each such officer shall hold office until the meeting of the Board of Directors first held after the next succeeding annual meeting of the Members or until his or her successor shall have been duly elected and shall have qualified, subject to the provisions of the Bylaws with respect to the removal of Directors and to the removal of officers by the Board of Directors. Any other officers may be elected by the Board from among such persons, and with such title, tenure, responsibilities and authorities, as the Board of Directors may from time to time deem advisable.

SECTION 6.03. REMOVAL OF OFFICERS, AGENTS OR EMPLOYEES. Any officer, agent or employee elected or appointed by the Board of Directors may be removed by the Board whenever in the Board's judgment the best interests of the Cooperative will thereby be served.

SECTION 6.04. VACANCIES. A vacancy in any office elected or

appointed by the Board of Directors shall be filled by the Board for the unexpired portion of the term.

SECTION 6.05. PRESIDENT. The President shall-

(a) Be the principal executive officer of the Cooperative and shall preside at all meetings of the Board of Directors, and, unless determined otherwise by the Board of Directors, attend all meetings of the Members;

(b) Sign, with the Secretary, Certificates of Membership the issuance of which shall have been authorized by resolution of the Board of Directors, and may sign any deeds, mortgages, deeds of trust, notes, bonds, contracts or other instruments authorized by the Board of Directors to be executed, except in cases in which the signing and execution thereof shall be expressly delegated by the Board of Directors or by the Bylaws to some other officer, agent or employee of the Cooperative, or shall be required by law to be otherwise signed or executed; and

(c) In general, perform all duties incident to the office of President and such other duties as may be prescribed by the Board of Directors from time to time.

SECTION 6.06. VICE PRESIDENT. In the absence of the President, or in the event of the President's inability or refusal to act, the Vice President shall perform the duties of the President, and when so acting, shall have all the powers of and be subject to all the restrictions upon the President, and shall perform such other duties as from time to time may be assigned to the Vice President by the Board of Directors.

SECTIONS 6.07. SECRETARY. The Secretary shall-

(a) Keep, or cause to be kept, the minutes of meetings of the Members and of the Board of Directors in one (1) or more books provided for that purpose;

(b) See that all notices are duly given in accordance with the Bylaws or as required by law;

(c) Be custodian of the corporate records and of the seal of the Cooperative and see that the seal of the Cooperative is affixed to all Certificates of Membership prior to the issue thereof and to all documents the execution of which, on behalf of the Cooperative under its seal, is duly authorized in accordance with the provision of the Bylaws or is required by law;

(d) Keep, or cause to be kept, a register of the name and post office address of each Member, which address shall be furnished to the Cooperative by such Member;

(e) Sign, with the President, Certificates of Membership the issuance of which shall have been authorized by resolution of the Board of Directors;

(f) Have general charge of the books of the Cooperative in which a record of the Members is kept;

(g) Keep on file at all times a complete copy of the Cooperative's Articles of Incorporation and Bylaws, together with all amendments thereto, which copies shall always be open to the inspection of any Member, and, at the expense of the Cooperative, furnish a copy of such documents and of all amendments thereto upon request to any Member; and

(h) In general, perform all duties incident to the office of the Secretary and such other duties as from time to time may be assigned to the Secretary by the Board of Directors.

SECTION 6.08. TREASURER. The Treasurer shall-

(a) Have charge and custody of and be responsible for all funds and securities of the Cooperative;

(b) Receive and give, or cause to receive and give, receipts for monies due and payable to the Cooperative from any source whatsoever, and deposit or invest all such monies in the name of the Cooperative in such bank or banks or in such financial institutions or securities as shall be selected in accordance with the provisions of the Bylaws; and

(c) In general, perform all the duties incident to the office of Treasurer and such other duties as from time to time may be assigned to the Treasurer by the Board of Directors.

SECTION 6.09. DELEGATION OF SECRETARY'S AND TREASURER'S RESPONSIBILITIES. Notwithstanding the duties, responsibilities and authorities of the Secretary and of the Treasurer hereinbefore provided in sections 6.07 and 6.08, the Board of Directors by resolution may, except as otherwise limited by law, delegate wholly or in part, the responsibility and authority for, and the regular or routine administration of, one or more of each such officer's such duties to one or more agents, other officers or employees of the Cooperative who are not Directors. To the extent that the Board of Directors does so delegate with respect to any such officer, that officer as such shall be released from such duties, responsibilities and authorities.

SECTION 6.10 MANAGER; GENERAL MANAGER; GENERAL MANAGER / CHIEF EXECUTIVE OFFICER (“CEO”); EXECUTIVE VICE PRESIDENT AND GENERAL MANAGER. The Board of Directors may appoint a Manager, who may be, but shall not be required to be, a Member of the Cooperative, and who also may be designated Manager, General Manager, General Manager / Chief Executive Officer, or Executive Vice President and General Manager. Such officer shall perform such duties as the Board of Directors may from time to time require and shall have such authority as the Board of Directors may from time to time vest in such Manager.

SECTION 6.11 BONDS. The Board of Directors may require the Treasurer and any other officer, agent, or employee of the Cooperative charged with responsibility for the custody of any of Cooperative’s funds or property to give bond in such sum and with such surety as the Board of Directors shall determine. The Board of Directors in its discretion may also require any other officer, agent or employee of the Cooperative to give bond in such amount and with such surety as the Board of Directors shall determine. The costs of all such bonds shall be borne by the Cooperative.

SECTION 6.12 COMPENSATION; INDEMNIFICATION.

(a) Officer Compensation. Except as otherwise provided by the Board of Directors or in the Bylaws addressing Director compensation, reimbursement, salaries, or benefits, the Cooperative may reasonably compensate, reimburse, pay a salary to, or provide insurance or other benefits to, an officer, including the Manager.

(b) Indemnification. Every Director and officer, including the Manager, of the Cooperative shall be indemnified by the Cooperative against all judgment, penalties, fines, liabilities, amounts paid in settlement and reasonable expenses, including attorney fees actually incurred by or imposed upon such person in connection with any proceeding to which such person was, is or is threatened to be made a party, or in which such person may become involved, by reason, in whole or in part, of being or having been a Director or officer of the Cooperative, whether or not such person is a Director or officer, at the time such expenses are incurred, to the maximum extent consistent with the provisions of Article 2.22A of the Texas Non-Profit Corporation Act; PROVIDED, however that in the event of a settlement the indemnification herein shall apply only when the Board of Directors approves such settlement and reimbursement as being for the best interest of the Cooperative. The foregoing right of indemnification shall be in addition to and not exclusive of all other rights to which such Director or officer may be entitled.

(c) Insurance. The Cooperative shall have the power to purchase and maintain insurance on behalf of any person who is or was a Director, officer, employee or agent of the Cooperative, or is or was serving at the request of the Cooperative as a Director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against such person and incurred by such person in such capacity, or arising out

of such person's status as such, whether or not the Cooperative would have the power to indemnify such person against such liability under the provision of this Article.

(d) Enforcement. The provisions of this Section are for the benefit of, and may be enforced by, each Director and officer of the Cooperative as a contract for valuable consideration and constitute a continuing offer to all present and future Directors and officers of the Cooperative. The Cooperative, by the adoption of this Article agrees that each present and future Director and officer of the Cooperative has relied upon and will continue to rely upon the provisions of the Article in accepting, serving or continuing to serve as a Director or officer.

(e) Amendment or Modification. No amendment, modification or repeal of this Article or any provisions hereof shall in any manner terminate, reduce or impair the right of any past, present or future Director or officer of the Cooperative to be indemnified by the Cooperative, nor the obligation of the Cooperative to indemnify any such Director or officer, under and in accordance with the provisions of the Article as in effect immediately prior to such amendment, modification or repeal with respect to claims arising from or relating to matters occurring, in whole or in part, prior to such amendment, modification or repeal, regardless of when such claims may arise or be asserted.

SECTION 6.13 REPORTS. The officers of the Cooperative shall submit at each annual meeting of the Members reports covering the business of the Cooperative for the previous fiscal year and showing the condition of the Cooperative at the close of such fiscal year.

ARTICLE VII

CONTRACTS, CHECKS AND DEPOSITS

SECTION 7.01. CONTRACTS. Except as otherwise provided by law or the Bylaws, the Board of Directors may authorize any Cooperative officer, agent, or employee to enter into any contract or execute and deliver any instrument in the name and on behalf of the Cooperative, and such authority may be general or confined to specific instances.

SECTION 7.02. CHECKS; DRAFTS; ORDERS FOR PAYMENT. All checks, drafts or other orders for the payment of money, and all notes, bonds or other evidences of indebtedness, issued in the name of the Cooperative, shall be signed or countersigned by such officer, agent, or employee of the Cooperative and in such manner as shall from time to time be

determined by resolution of the Board of Directors.

SECTION 7.03 DEPOSITS; INVESTMENTS. All funds of the Cooperative shall be deposited or invested from time to time to the credit of the Cooperative in such bank or banks or in such financial securities or institutions as the Board of Directors may select.

ARTICLE VIII

MEMBERSHIP CERTIFICATES

SECTION 8.01. CERTIFICATE OF MEMBERSHIP. Membership in the Cooperative shall be evidenced by a Certificate of Membership, which shall be in such form and shall contain such provisions as shall be determined by the Board of Directors not contrary to, or inconsistent with, the Cooperative's Articles of Incorporation or its Bylaws. Such certificate shall be signed by the President and the Secretary, and the seal shall be affixed thereto; PROVIDED, however, that the seal and the signatures of the President and the Secretary may be imprinted thereon by facsimile.

SECTION 8.02. ISSUANCE OF CERTIFICATE OF MEMBERSHIP. No Certificate of Membership shall be issued for less than the Membership Fee fixed by the Board of Directors nor until such Membership Fee, and any required Additional Fees have been fully paid.

SECTION 8.03. LOST CERTIFICATE. In case of a lost, destroyed, or mutilated certificate, a new certificate may be issued therefore upon such terms and such indemnity to the Cooperative as the Board of Directors may prescribe.

ARTICLE IX

NON-PROFIT OPERATION

SECTION 9.01. INTEREST OR DIVIDENDS ON CAPITAL PROHIBITED. The Cooperative shall at all times be operated on a cooperative non-profit basis for the mutual benefit of its patrons. No interest or dividends shall be paid or payable by the Cooperative on any capital furnished by its patrons.

SECTION 9.02. PATRONAGE CAPITAL IN CONNECTION WITH FURNISHING ELECTRIC ENERGY. In the furnishing of electric energy the Cooperative's operations shall be so conducted that all patrons will, through the patrons' patronage, furnish capital for the Cooperative.

(a) ACCOUNTING. In order to induce patronage and to assure that the Cooperative will operate on a non-profit basis, the Cooperative is obligated to account on a patronage basis to all Cooperative's patrons for all amounts received and receivable from the furnishing of electric energy in excess of

operating cost and expenses properly chargeable against the furnishing of electric energy.

(i) All such amounts in excess of operating costs and expenses at the moment of receipt by the Cooperative are received with the understanding that such amounts are furnished by the patrons as capital.

(ii) The Cooperative is obligated to pay by credits to a capital account for each patron all such amounts in excess of operating costs and expenses; and

(iii) The books and records of the Cooperative shall be set up and kept in such a manner that at the end of each fiscal year the amount of capital, if any, so furnished by each patron is clearly reflected and credited in an appropriate record to the capital account of each patron.

(b) NOTICE. Cooperative shall within a reasonable time after the close of the fiscal year notify each patron of the amount of capital so credited to his or her account; PROVIDED, however, that individual notices of such amounts furnished by each patron shall not be required if the Cooperative notifies all patrons of the aggregate amount of such excess and provides a clear explanation of how each patron may compute and determine the specific amount of capital so credited to him or her.

(c) ACCOUNT STATUS. All such amounts credited to the capital account of any patron shall have the same status as though the amounts had been paid to the patron in cash in pursuance of a legal obligation to do so and the patron had then furnished the Cooperative corresponding amounts for capital.

(d) OFFSET. All other amounts received by the Cooperative in excess of costs and expenses, other than from the furnishing of electric energy, shall, insofar as permitted by law, be (i) used to offset any losses incurred during the current or any prior fiscal year; (ii) used to establish reserves and other capital not assignable to the patrons prior to the dissolution of the Cooperative; and (iii) to the extent not needed for these purposes, allocated to its patrons on a patronage basis. Any amount so allocated shall be included as part of the capital credit to the account of patrons, as herein provided.

(e) ASSIGNMENT. Capital credited to the account of each patron shall be assignable only on the books of the Cooperative pursuant to written instructions from the assignor and only to successors in interest or successors in occupancy in all or a part of such patron's premises served by the Cooperative,

unless the Board of Directors, acting under policies of general application, shall determine otherwise.

(f) **RETIRED CAPITAL CREDITS.** In the event of termination or liquidation of the Cooperative, after all outstanding indebtedness of the Cooperative shall have been paid, outstanding capital credits shall be retired without priority on a pro rata basis before any payments are made on account of property rights of Members; **PROVIDED**, however, that insofar as gains may at that time be realized from the sale of any appreciated asset, such gains shall be distributed to all persons who were patrons during the period the asset was owned by the Cooperative in proportion to the amount of business done by such patrons during that period, insofar as is practicable, as determined by the Board of Directors before any payments are made on account of property rights of Members.

(i) If, at any time prior to termination or liquidation of the Cooperative, the Board of Directors shall determine that the financial condition of the Cooperative will not be impaired thereby, the capital then credited to patrons' accounts may be retired in full or in part.

(ii) Any such retirements of capital shall be with one-hundred percent (100%) of the capital credits being returned in order of priority according to the year which the capital was furnished and credited, the capital first received by the Cooperative being first retired ("FIFO"); **PROVIDED**, however, that the Board of Directors shall have the power to adopt rules providing for the separate retirement of that portion ("power supply or other service or supply portion") of capital credited to the accounts of patrons which corresponds to capital credited to the account of the Cooperative by an organization furnishing power supply or any other service or supply to the Cooperative.

(iii) Such rules shall:

(A) Establish a method for determining the portion of such capital credited to each patron for each applicable fiscal year;

(B) Provide for separate identification on the Cooperative's books of such portions of capital credited to the Cooperative's patrons;

(C) Provide for appropriate notification to patrons with respect to such portions of capital credited to the patrons' accounts;

(D) Preclude a general retirement of such portions of capital credited to patrons for any fiscal year prior to the general retirement of other capital credited to patrons for the same year or of any capital credited to patrons for any prior fiscal year.

(iv) The Cooperative, before retiring any capital credit to any patron's account, shall deduct therefrom any amount owing by such patron to the Cooperative.

(i) ENFORCEMENT. The patrons of the Cooperative, by dealing with the Cooperative, acknowledge that the terms and provisions of the Articles of Incorporation and Bylaws shall constitute and be a contract between the Cooperative and each patron, and both the Cooperative and the patron are bound by such contract, as fully as though each patron had individually signed a separate instrument containing such terms and provisions.

SECTION 9.03. PATRONAGE REFUNDS IN CONNECTION WITH FURNISHING OTHER SERVICES. In the event that the Cooperative should engage in the business of furnishing goods or services other than electric energy, all amounts received and receivable therefrom which are in excess of costs and expenses properly chargeable against the furnishing of such goods or services shall, insofar as permitted by law, be prorated annually on a patronage basis and returned to those patrons from whom such amounts were obtained at such time and in such order of priority as the Board of Directors shall determine.

SECTION 9.04. MEMBERS' CURRENT ADDRESSES; CONTRIBUTIONS TO CAPITAL. All persons to whom capital credits have been allocated shall keep the Cooperative informed of such persons' current mailing addresses in order that the Cooperative may retire or refund capital credits, Membership Fees, deposits and any other amounts to such persons in accordance with the Bylaws. If prior to retirement of capital as approved by the Bylaws, a person ceases to be a Member or patron of the Cooperative and such person's existence and whereabouts are unknown to the Cooperative for period of five (5) years, capital credited to such person's account shall be deemed a contribution to capital and such person shall have no further claim to such capital. If a check representing any retirement or refund of any such capital credits, Membership Fees, deposits and other such amounts shall be mailed to any such person to such person's last known address shown in the records of the Cooperative and shall be returned unclaimed to the Cooperative, or any such check remain uncashed and no claim therefore shall be made by such person for a period as provided by law after the issuance thereof, it is agreed that such person shall thereafter have no right, title and/or interest to any such capital credits, Memberships Fees, deposits or other amounts credited to such person on the books of the Cooperative and such amounts shall thereafter be delivered as permitted by and in accordance with the laws of the State of Texas regarding unclaimed funds.

ARTICLE X

WAIVER OF NOTICE

Any Member or Director may waive, in writing, any notice of meetings required to be given by the Bylaws, or any notice that may otherwise be legally required, either before or after such notice is required to be given.

ARTICLE XI

DISPOSITION AND PLEDGING OF PROPERTY:

DISTRIBUTION OF SURPLUS ASSETS ON TERMINATION

SECTION 11.01. DISPOSITION AND PLEDGING OF PROPERTY.

(a) Not inconsistently with subsection (b) hereof, the Members of the Cooperative may, at a duly held meeting of the Members, authorize the sale, lease, lease-sale, exchange, transfer or other disposition of all or a substantial portion of the Cooperative's property and assets by the affirmative vote of not less than two-thirds (2/3) of all Members of the Cooperative. However, the Board of Directors, without authorization by the Members, shall have full power and authority to do the following:

(1) Borrow monies from any source and in such amounts as the Board of Directors may from time to time determine;

(2) Mortgage or otherwise pledge or encumber any and all of the Cooperative's property or assets as security therefore; and

(3) Sell, lease, lease-sell, exchange, transfer or otherwise dispose of merchandise, property no longer necessary or useful for the operation of the Cooperative, or less than a substantial portion of the Cooperative's property and assets. "Substantial portion" means ten percent (10%) or more of the Cooperative's total assets as reflected on its books at the time of the transaction.

(b) Supplementary to the first sentence of the foregoing subsection (a) and any other applicable provisions of law or by the Bylaws, no sale, lease, lease-sale, exchange, transfer or other disposition of all or a substantial portion of the Cooperative's property and assets shall be authorized except in conformity with the following:

(1) If the Board of Directors looks with favor upon proposal for such sale, lease, lease-sale, exchange, transfer or other disposition, it shall first cause three (3) independent, non-affiliated appraisers, expert in such matters, to render their individual opinions as to the value of the Cooperative with respect to such a sale, lease, lease-sale, exchange, transfer or other disposition and as to any other terms and conditions which should be considered;

(2) If the Board of Directors, after receiving such appraisals (and other terms and conditions which are submitted, if any), determines that the proposal should be submitted for consideration by the Members, it shall first give every other rural electric cooperative corporations corporately sited and operating in Texas (which has not made such an offer for such sale, lease, lease-sale, exchange, transfer or other disposition) an opportunity to submit competing proposals;

(A) Such opportunity shall be in the form of a written notice to such rural electric cooperative corporations, which notice shall be attached to a copy of the proposal which the Cooperative has already received and copies of the respective reports of the three (3) appraisers;

(B) Such electric cooperative corporations shall be given not less than thirty (30) days during which to submit competing proposals, and the actual minimum period within which proposals are to be submitted shall be stated in the written notice given to them;

(3) If the Board of Directors then determines that favorable consideration should be given to the initial or any subsequent proposal which has been submitted to it, it shall so notify the Members not less than sixty (60) days before noticing a special meeting of the Members thereon or, if such be the case, the next annual Member meeting, expressing in detail each of any such proposals, and shall call a special meeting of the Members for consideration thereof and action thereon, which meeting shall be held not less than thirty (30) days after the giving of notice thereof to the Members; PROVIDED, however, that consideration and action by the Members may be given at the next annual meeting of the Members if the Board of Directors so determines and if such annual meeting is held not less than thirty (30) days after the giving of notice of such meeting; and/or

(4) Any fifty (50) or more Members, by so petitioning the Board of Directors, not less than thirty (30) days prior to the date of such special or annual meeting, may cause the Cooperative, with the cost to be borne by the Cooperative, to mail to all Members any opposing or alternative positions which such Members may have to the proposals that have been submitted or any recommendations that the Board has made.

The provisions of this subsection (b) shall not apply to a sale, lease, lease-sale, exchange, transfer or other disposition to one or more other rural electric cooperatives if the substantive effect thereof is to merge with such other one or more rural electric cooperative corporations or the actual legal effect thereof is to consolidate with such other one or more rural electric cooperative

corporations.

SECTION 11.02. DISTRIBUTION OF SURPLUS ASSETS ON TERMINATION. Upon the Cooperative's liquidation or termination, any assets remaining after all liabilities or obligations of the Cooperative have been satisfied and discharged shall, to the extent practicable as determined by the Board of Directors, not inconsistently with the provisions of the third paragraph of Section 9.02 of the Bylaws, be distributed without priority, but on a patronage basis, among all persons who are Members of the Cooperative at the time of the filing of the certificate of termination; PROVIDED, HOWEVER, that, if in the judgment of the Board of Directors the amount of such surplus is too small to justify the expense of making such distribution, the Board of Directors may, in lieu thereof, donate, or provide for the donation of, such surplus to one or more nonprofit charitable or educational organizations that are exempt from Federal income taxation.

ARTICLE XII

FISCAL YEAR

The Cooperative's fiscal year shall begin on the first day of the month of January of each year and end on the last day of the month of December following.

ARTICLE XIII

RULES OF ORDER

Parliamentary procedure at all meetings of the Members, of the Board of Directors, of any committee provided for in the Bylaws and of any other committee of the Members or Board of Directors which may from time to time be duly established shall be governed by the most recent edition of Robert's Rules of Order, except to the extent such procedure is otherwise determined by law or by the Cooperative's Articles of Incorporation or Bylaws.

ARTICLE XIV

SEAL

The Corporate seal of the Cooperative shall be in the form of a circle and shall have inscribed thereon the name of the Cooperative and the words "Corporate Seal, Texas."

ARTICLE XV

AMENDMENTS

The Bylaws may be altered, amended or repealed by the affirmative vote of not less than two-thirds (2/3) of the Board of Directors at any regular or special Board meeting. The notice of such meeting shall have contained a copy of the proposed alteration, amendment or repeal or an accurate summary explanation thereof.

Hamilton County Electric Cooperative Association is the recipient of Federal financial assistance from the Rural Utilities Service, an agency of the U.S. Department of Agriculture.

NONDISCRIMINATION STATEMENT

In accordance with Federal civil rights law and U.S. Department of Agriculture (USDA) civil rights regulations and policies, the USDA, its Agencies, offices, and employees, and institutions participating in or administering USDA programs are prohibited from discriminating based on race, color, national origin, religion, sex, gender identity (including gender expression), sexual orientation, disability, age, marital status, family/parental status, income derived from a public assistance program, political beliefs, or reprisal or retaliation for prior civil rights activity, in any program or activity conducted or funded by USDA (not all bases apply to all programs). Remedies and complaint filing deadlines vary by program or incident.

Persons with disabilities who require alternative means of communication for USDA program information (e.g. Braille, large print, audiotape, American Sign Language, etc.) should contact the responsible Agency or USDA's TARGET Center at (202)720-2600 (voice and TTY) or contact USDA through the Federal Relay Service at (800)877-8339. Additionally, program information may be made available in languages other than English.

To file a program discrimination complaint, complete the USDA Program Discrimination Complaint Form, AD-3027, found online at http://www.ascr.usda.gov/complaint_filing_cust.html and at any USDA office

or write a letter addressed to USDA and provide in the letter all of the information requested in the form. To request a copy of the complaint form, call (866)632-9992. Submit your completed form or letter to USDA by:

1. mail: U.S. Department of Agriculture
Office of the Assistant Secretary for Civil Rights
1400 Independence Avenue, S.W.
Washington, D.C. 20250-9410
2. fax: (202) 690-7442; or
3. email: program.intake@usda.gov

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Adopted: April 28, 2016