

HOUSTON COUNTY ELECTRIC COOPERATIVE, INC.

It shall be the aim of Houston County Electric Cooperative, Inc. (hereinafter called the "Cooperative") to make electric energy and/or other services as allowed by applicable state and federal law available to its members at the lowest cost consistent with sound economy and good management.

BYLAWS

OF

HOUSTON COUNTY ELECTRIC COOPERATIVE, INC.

PREAMBLE

These Bylaws (referred to as the "Bylaws") govern the affairs of HOUSTON COUNTY ELECTRIC COOPERATIVE, INC., an electric cooperative corporation organized under the Texas Electric Cooperative Corporation Act, V.T.C.A., Utilities Code §161.001 et seq, (referred to as the "Act"). The Original Bylaws, including amendments thereto, of the HOUSTON COUNTY ELECTRIC COOPERATIVE, INC., where in conflict herewith, are hereby amended to read as follows:

ARTICLE I

OFFICES

1.01. **Principal Office.** The principal office of the Cooperative in the State of Texas shall be located at Crockett, Houston County, Texas. The Cooperative may have such other offices, either in Texas or elsewhere, as the Board of Directors may determine. The Board of Directors may change the location of any office of the Cooperative.

1.02. **Registered Office and Registered Agent.** The Cooperative shall comply with the requirements of the Act and maintain a registered office and registered agent in Texas. The registered office may, but need not, be identical with the Cooperative's principal office in Texas. The Board of Directors may change the registered office and the registered agent as provided in the Act.

ARTICLE II

MEMBERSHIP

2.01. **Requirements for Membership.** Any person, firm, association, corporation, or body politic or subdivision (collectively "Person") thereof may become a member of Houston County Electric Cooperative, Inc. (hereinafter called the "Cooperative") by:

- (a) making a written application for membership therein;
- (b) agreeing, as required or allowed by applicable law, to use, receive or purchase electrical power (referred to as "Cooperative Services") from the Cooperative;
- (c) agreeing to comply with and be bound by the Articles of Incorporation and Bylaws of the Cooperative, and any rules and regulations adopted by the Board of Directors, and

2.02. **Voting Membership.** Upon compliance with the requirements set forth in Section 2.01 of this Article and upon acceptance for membership by the Board of Directors, the term "member" as used in these Bylaws for the purpose of voting on any issue or ownership of the membership shall be deemed to include the following:

- (a) "person(s)" shall include any adult member of a family household;
- (b) Membership by a "firm", "association" or "corporation" shall constitute ownership and voting by the entity owning or controlling the property purchasing Cooperative Services from the Cooperative; and,

- (c) Membership by a "body politic or subdivision thereof" shall constitute ownership and voting by the entity owning or controlling the property purchasing Cooperative Services from the Cooperative.

The term "member" as used herein shall apply equally with respect to any individual or entity holding membership as defined above, however, membership for the purposes of voting applies only to the location where Cooperative Services are purchased from the Cooperative and any "member" is entitled to only one vote per membership, regardless of the number of owners of a membership. Without limiting the generality of the foregoing, the effect of the following specified actions by or in respect of the holders of a joint membership shall be as follows:

- (a) the presence at a meeting of either, both or all owners of a membership shall be regarded as the presence of one member and shall constitute waiver of all owners of a membership of notice of the meeting;
- (b) the vote of any owner of a membership, either separately or all jointly shall constitute one vote;
- (c) a waiver of notice signed by any owner of a membership shall constitute a joint waiver;
- (d) notice to any owner of a membership shall constitute notice to all owners of a membership;
- (e) expulsion of any owner of a membership shall terminate the membership for all owners of a membership;
- (f) withdrawal of ownership of the membership by any owner of a membership will not automatically terminate the ownership of the membership by remaining owners;
- (g) any owner of a membership may be elected or appointed as an officer, director of the Cooperative, provided that elected or appointed owner meets the qualifications for such office, however, such election or appointment of an owner of a membership will not cause or create additional rights by remaining owners of a membership.

2.03. **Designation of Voting Member.** (a) As set out above, any adult resident of a household membership is designated as an eligible voter of a membership, subject to the requirements of only one vote per membership. Upon the death of any member of a household owning membership, such membership shall continue to be held by the surviving owners, if any. (b) In determining the approved or designated voting owner for any member that is a Firm, Association, Corporation, Body Politic or subdivision thereof, the name of the designated voting owner of a membership shall be the name stated on the application for membership or shall be designated in written notice to the Cooperative by the member at least ten (10) days prior to any election.

2.04. **Voting Rights.** Each member shall be entitled to one vote on each matter submitted to a vote of the members.

2.05. **Resolution of Disputes.** In any dispute between members relating to the activities of the Cooperative, all parties involved shall cooperate in good faith to resolve the dispute. If the parties cannot resolve the dispute between themselves, they shall cooperate to select one or more mediators to help resolve the dispute. If no timely resolution of the dispute occurs through mediation, any party may demand binding arbitration as described in the Texas Civil Practice & Remedies Code §171.001. This paragraph shall not apply to a dispute involving the Cooperative as a party relating to the sanctioning, suspension, or expulsion of a member from the Cooperative. The Board of Directors shall have the discretion to authorize the use of the Cooperative's funds for mediation or arbitration of a dispute described in this paragraph.

2.06. **Membership and Service Connection Fees.** The membership and connection fees shall be determined by the Board of Directors and the Board of Directors may set and change the amount of any initial membership fee, initial connection or subsequent connection fee as necessary for the efficient management of the Cooperative.

2.07. **Purchase of Electric Energy.** Members may purchase such electric energy as may be desired by the member from the Cooperative to be used on the premises specified in a member's application for membership, and shall pay therefor monthly at rates which shall from time to time be determined by the Board of Directors; provided, however, that the Board of Directors, in its sole discretion, may limit the amount of electric energy which the Cooperative shall be required to furnish any one member. It is expressly understood that amounts paid for electric energy in excess of the cost of service are furnished by members as capital and each member shall be credited with the capital so furnished as provided by these Bylaws. Each member shall pay to the Cooperative a fixed minimum

amount per month regardless of the amount of electric energy consumed, as shall be determined by the Board of Directors from time to time. Each member shall also pay all amounts owed by the member to the Cooperative from time to time. Each member shall also pay all amounts owed by the member to the Cooperative as and when the same shall become due and payable.

2.08. **Termination of Membership.**

(a) Resignation: Any member may withdraw or resign from membership by submitting a written resignation to the Cooperative in compliance with such uniform terms and conditions as the Board of Directors may prescribe. The resignation need not be accepted by the Cooperative to be effective. A member's resignation shall not relieve the member of any obligations to pay any charges that had accrued and were unpaid prior to the effective date of resignation.

(b) Termination: The Board of Directors of the Cooperative may, by the affirmative vote of not less than two thirds of all the directors, expel any member who fails to comply with any of the provisions of the Articles of Incorporation, Bylaws, or rules or regulations adopted by the Board of Directors. A vote to terminate membership may occur only if such member shall have been given written notice by the Secretary of the Cooperative by registered or certified mail, return receipt requested, that such failure makes the member liable to expulsion and such failure shall have continued for at least ten days after such notice was given.

(c) Reinstatement: Any expelled member may be reinstated after submitting a written request for reinstatement of membership by vote of the Board of Directors or by vote of the members at any annual or special meeting.

(d) Cancellation: The membership of a member who for a period of six (6) months after service is available to him, has not purchased Cooperative Services from the Cooperative, or of a member who has ceased to purchase Cooperative Services from the Cooperative may be cancelled by resolution of the Board of Directors.

(e) Upon the withdrawal, death, cessation of existence, or expulsion of a member, the membership of such member shall thereupon terminate. Termination of membership in any manner shall not release a member or the member's estate from any debts due the Cooperative.

(f) In case of withdrawal or termination of membership in any manner, the Cooperative shall repay to the member the amount of any membership fee paid by the member, provided, however, that the Cooperative shall deduct from the amount of the membership fee the amount of any debts or obligations owing from the member to the Cooperative.

(g) The Board of Directors of the Cooperative shall be authorized to terminate the membership and refuse service (electric or otherwise) to any person, firm, corporation, governmental agency (state or federal) or other beneficiary of services provided by the Cooperative in the event any of the foregoing persons, firms, corporations, governmental agencies, or other beneficiaries of service elect or attempt to impose or levy fees or charges for rights-of-way across public or private lands, whether previously or hereafter acquired by the Cooperative and further provided that a minimum of fifteen (15) days notice of intention to terminate service shall be served upon the foregoing category of Cooperative Service users proposing to levy assessments, fees, or charges by certified mail, return receipt requested.

ARTICLE III.

RIGHTS AND LIABILITIES OF MEMBERS

3.01. **Property Interest of Members.** Upon dissolution, after (a) all debts and liability of the Cooperative shall have been paid, and (b) all capital furnished through patronage shall have been retired as provided in these Bylaws, the remaining property and assets of the Cooperative shall be distributed among members and former members of the proportion which the aggregate patronage of each bears to the total patronage of all such members, unless otherwise provided by law.

3.02. **Non-Liability for Debts of the Cooperative.** The private property of the members shall be exempt from execution or other liability for the debts of the Cooperative and no member shall be liable or responsible for any debts or liabilities of the Cooperative.

ARTICLE IV.

MEETING OF MEMBERS

4.01. **Annual Meeting.** The annual meeting of the members shall be held on the last Thursday in October of each year, or if necessary due to scheduling and event conflicts, at such date and time as designated by the Board for the meeting. The annual meeting will be held at such place in the county of Houston, State of Texas, as shall be designated in the notice of the meeting, for the purpose of electing directors, passing upon reports for the previous fiscal year, and transacting such other business as may come before the meeting. It shall be the responsibility of the Board of Directors to make adequate plans and preparations for the annual meeting and to provide appropriate notice of the meeting. Failure to hold the annual meeting at the designated time shall not work a forfeiture or dissolution of the Cooperative.

4.02. **Special Meetings.** Special meetings of the members may be called by resolution of the Board of Directors, or upon a written request signed by any five (5) directors or by ten per centum (10%) or more of all the members, and it shall thereupon be the duty of the Secretary to cause notice of such meeting to be given as hereinafter provided. Special Meetings of the members may be held at any place within the county of Houston, State of Texas, specified in the notice of the special meeting.

4.03. **Notice of Members' Meetings.** Written or printed notice stating the place, day and hour of the meeting and, in case of a special meeting or an annual meeting at which business requiring special notice is to be transacted, the purpose or purposes for which the meeting is called, shall be delivered to each member not less than ten days nor more than thirty days before the date of the meeting, either personally or by mail, by or at the direction of the Secretary, or upon a default in duty by the Secretary, by the persons calling the meeting. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail, addressed to the member at his address as it appears on the records of the Cooperative, with postage thereon prepaid. The failure of any member to receive 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.

4.04. **Quorum.** As long as the total number of members does not exceed one thousand (1,000), at least fifteen per centum (15%) of the total number present in person shall constitute a quorum for the transaction of business at all meetings of the members. In case the total number of members shall exceed one thousand (1,000), then at least one hundred fifty (150) of the members present in person shall constitute a quorum for the transaction of business at all meetings of the members. Provided, however, that in any meeting at which an amendment to the Articles of Incorporation are to be presented in accordance with §161.151 of the Act, a quorum for consideration of such amendment shall be five per centum (5%) of the members in person or by proxy. If less than a quorum is present at any meeting, a majority of those present may adjourn the meeting from time to time without further notice.

4.05. **Voting.** Each member shall be entitled to only one vote upon each matter submitted to a vote at any meeting of the members. With regard to the election of directors, eligibility for voting shall be as specified in Article II, 2.02 and 2.03 and Article V, 5.02 of these Bylaws. All questions shall be decided by a majority vote of the members casting votes therein on person unless otherwise provided by law, the Articles of Incorporation, or these Bylaws; and proxy voting is specifically prohibited, unless otherwise provided by these Bylaws and as provided in §161.151 of the Act.

4.06. **Order of Business.** The order of business at the annual meeting of the members and, so far as possible, at all other meetings of the members, shall be essentially as follows:

- (a) report on the number of members present in person in order to determine the existence of a quorum;
- (b) reading the notice of the meeting and proof of the due publication or mailing thereof, or the waiver or waivers of notice of the meeting, as the case may be;
- (c) reading of unapproved minutes of previous meetings of the members and the taking of necessary action thereon;
- (d) presentation and consideration of reports of officers, directors, and committees;

- (e) election of directors;
- (f) unfinished business;
- (g) new business; and
- (h) adjournment.

ARTICLE V.

DIRECTORS

5.01. **General Powers.** The business and affairs of the Cooperative shall be managed by a board of nine (9) directors. The number of the directors on the board shall remain nine (9) and shall not be increased or decreased under any circumstances. The board of directors shall exercise all of the powers of the Cooperative except such as by law, the Articles of Incorporation, or these Bylaws are conferred upon or reserved to the members.

5.02. **Election and Tenure of Office.** At each annual meeting of members directors shall be elected to replace those directors whose terms have expired or who have been otherwise removed or to fill those positions that have been vacated. Directors shall be elected for terms of three years, or until their successors shall have been elected and shall have qualified subject to the provisions of these Bylaws with respect to removal of directors. At each annual meeting of members, the directors to be elected shall be from the same districts as their predecessors. Except as provided in Article V, 5.05, each director shall be selected by ballot by and from the members of the respective district in which the members and the director reside. Except as provided in Article V, 5.05, each member shall be entitled to vote for one of the candidates seeking the office of director for the district or precinct in which the member resides. A member may not vote for candidates seeking the office of director for a district or precinct in which the member does not reside. One district is to be comprised of Trinity County with one director to be elected therefrom; Leon county is to comprise one district with one director to be elected therefrom; one district is to be comprised of Anderson County with one director to be elected therefrom; one district is to be comprised of Madison County with one director to be elected therefrom; Houston County is to comprise four districts, or precincts with one director to be elected from each of the four districts or precincts of Houston County; and the entire area served by the Cooperative shall comprise one district with one director being elected from the entire district to be designated director-at-large.

5.03. **Proxy Voting.** A member may vote by mailed proxy card for the purpose of electing directors only. Except as provided in Article V, 5.05, it shall be the duty of the Board of Directors to mail or cause to be mailed to each member a proxy voting card at the same time as the notification of the holding of the election and certifying such member is qualified to cast a vote.

All proxy cards which are properly signed by the members and received prior to the annual meeting where the final action is to be taken on the election shall be voted by the Board of Directors for the person receiving the highest number of votes in each district electing directors as certified to the Board by the Canvassing Committee.

All properly signed and timely received proxy voting cards shall be counted in determining a quorum at the annual meeting insofar as the election of directors is concerned. At the close of the annual meeting where the proxy is exercised by the Board in accordance with this section, such proxy and the rights, privileges and duties granted therein shall expire.

5.04. **Nominations.** Nominations for directors shall be made by districts as hereinabove defined and shall be selected for election at the annual meeting in accordance with the procedure hereinafter described.

- (a). Nominees from districts where directors' terms of office end are to be selected from the membership of the same districts. It shall be the duty of the Board of Directors to appoint a Nominating Committee not less than sixty (60) days nor more than ninety (90) days prior to the date of a meeting of the members at which directors are to be selected. This Nominating Committee shall be composed of six members, two members from each district where a director is to be elected and who are not presently directors. This Nominating Committee shall select one nominee from each of the three appropriate districts each year. By petition

containing signatures of ten (10%) percent of the voting members residing in the boundaries of the district in which a director is to be elected, or the signatures of at least one hundred fifty (150) voting members residing in the boundaries of the district in which a director is to be elected, whichever is less, members may make other nominations for nominees to be included on the ballot for the election to the position of director. Nominating petitions must be filed with the Secretary of the Board of Directors not less than twenty-seven (27) days prior to the date set for the Ballot Canvassing Committee to count ballots.

(b). Except as provided in Article V, 5.05, a primary election for the district nominee shall be held each year for the district from which a director is to be selected. This primary election shall be by mail ballot. In such elections, only members whose service connections are within the boundaries of the district for which a director is being elected shall be qualified to vote.

(c). Except as provided in Article V, 5.05, it shall be the duty of the Board of Directors to mail or cause to be mailed to each member in a district in which a director is to be elected a nominating ballot card on which appears the nominees of the Nominating Committee and also the names of all persons nominated by petition with space provided for other write-in nominations. The ballot cards shall be mailed so as to be in the hands of the members not later than three (3) days before the date set for counting the ballots or nominations.

(d). Each member shall mark the member's preference on the ballot and return to the Ballot Canvassing Committee who shall be appointed by the Board of Directors, and who will open, count, and record the ballots on nominations and report same to the Board of Directors of the Cooperative who will canvass the returns at the next regular meeting and bring the results before the members at the annual meeting for final action. No further nominations shall be heard at the annual meeting and the action of the members when assembled at an annual or special meeting, where a quorum is present, shall be final.

(e). In the event that a quorum is not present at any annual meeting, then the person receiving the highest number of votes in each district shall serve as director in the member's respective district until a meeting of the members is held at which a quorum is present. At such time the members shall act upon the nominations and elect the person selected. Notwithstanding anything contained in this section, failure to comply with any of the provisions of this section shall not affect in any manner whatsoever the validity of any election of directors. The methods hereinabove provided for the selection of candidates for the office of directors shall be exclusive and any other method for nominating candidates for the office of director shall be and is hereby prohibited. If there is a tie vote between the nominees of a particular district, then that tie shall be broken by a runoff election to be carried out by mailed ballots to each member of the particular district, immediately following verification of the vote count by the Canvassing Committee. In the event there are more than two candidates running for the office of director, the candidate receiving the most votes shall be deemed elected. There shall be no run-off for the office of director.

5.05. **Uncontested races.** In any year in which any of the district nominees and/or at-large nominees, as determined in Article V, 5.04, do not have formal challenges for the position after the posted deadline for nominating petitions and prior to the date for distribution of ballots, the Ballot Canvassing Committee may certify to the Board of Directors that the election for that district for that year is uncontested. The membership for that district shall have been deemed to have consented to the Nominating Committee's nominee. In the event the Ballot Canvassing Committee certifies that the election is uncontested, the Board of Directors may, for that election year, declare the election uncontested and suspend distribution of proxy ballots for that year election. No write-in candidates will be accepted at the annual meeting. The Board of Directors shall announce the certification by the Ballot Canvassing Committee at the annual meeting of the election by consent of the nominated director.

5.06. **Qualifications.** No person shall be eligible to become or remain a director of the Cooperative who:
(a) is not a member actually using electric energy supplied by the Cooperative for residential use at the member's principal place of residence and a *bona fide* resident of the area served or to be served by the Cooperative; or
(b) is in any way employed by or financially interested in any enterprise competing directly or indirectly with the Cooperative in any business in which it may be engaged, including specifically, but not by way of

limitation, the generation, sale and/ or distribution of electric energy or a business selling electric energy, and/ or equipment and supplies used in the generation, sale and/ or distribution of electric energy to the Cooperative, or a business primarily engaged in selling electrical or plumbing appliances, fixtures or supplies to members of the Cooperative if the Cooperative is engaged in the business of selling electrical or plumbing appliances to its members; or

(c) is not a *bona fide* user of electricity supplied by the Cooperative; or

(d) has, without excuse, failed to attend three (3) consecutive meetings of the Board.

(e) is an employee of or has been an employee of the Cooperative in the prior 8 years

Nothing contained in these qualifications shall be deemed to prohibit any person serving as a director from soliciting the Cooperative to provide goods or service other than as specifically prohibited by subsection (b) above, so long as the director seeking to provide the goods or services to the Cooperative shall have complied with the procedures described in the policies and procedures of the Cooperative adopted by the Board and/ or officers of the Cooperative from time to time.

When a membership is held jointly by a husband and wife, either one, but not both may be elected a director, provided however, that the director candidate shall not be eligible to become or remain a director or hold a position of trust in the Cooperative unless the director candidate shall meet the qualifications hereinabove set forth.

When the Board of Directors, in its discretion, reasonably believes a director is holding office in violation of any of the foregoing provisions, the Board of Directors shall remove such Director from office in accordance with the provisions of these bylaws relating to the removal of a Director. Nothing contained in this section shall affect in any manner whatsoever the validity of any action taken at a meeting of the Board of Directors.

5.07. **Removal of Directors by Members.** Any member may bring charges against a director and, by filing with the Secretary such charges in writing together with a petition signed by at least ten per centum (10%) of the members, may request the removal of such director by reason thereof. Such director shall be informed in writing of the charges at least ten days prior to the meeting of the members at which the charges are to be considered and shall have an opportunity at the meeting to be heard in person or by counsel and to present evidence in respect to the charges; and the person or persons bringing the charges against him shall have the same opportunity. The question of removal of such director shall be considered and voted upon at the meeting of the members and any vacancy created by such removal shall be filled by a majority vote of the members present and voting at the next annual membership meeting.

5.08. **Vacancies Occurring Other Than by Removal.** Vacancies occurring on the Board of Directors, resulting from resignations, deaths, or otherwise, shall be filled by a majority vote of the remaining members of the Board, even if it is less than a quorum of the remaining members of the Board of Directors, as soon as practical after the vacancy occurs for the unexpired term. The director elected to fill a vacancy shall be elected for the unexpired term of the predecessor's office.

5.09. **Compensation.** Directors shall not receive any salary for their services as directors of the Cooperative, except that by resolution of the Board of Directors a fixed sum and actual expenses of attendance, if any, may be allowed for attendance at each meeting of the Board of Directors or meetings of Committees appointed by and from the Board members to serve on specific temporary assignments. 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 compensation shall be specifically authorized by a vote of the members or the service by such director or close relative shall have been certified by the Board of Directors as an emergency measure. Nothing in this Bylaw shall be construed as prohibiting a director from receiving compensation for services and actual expenses in connection with service on the board of directors of another Corporation or organization.

5.10. **Duties of Directors.** Directors shall discharge their duties, including any duties as committee members, in good faith, with ordinary care, and in a manner they reasonably believe to be in the best interest of the Cooperative. Ordinary care is care that ordinarily prudent persons in similar positions would exercise under similar

circumstances. In the discharge of any duty imposed or power conferred on directors, they may in good faith rely on information, opinions, reports, or statements, including financial statements and other financial data, concerning the Cooperative or another person that were prepared or presented by a variety of persons, including officers and employees of the Cooperative, professional advisors or experts such as accountants, or legal counsel. A director is not relying in good faith if the director has knowledge concerning a matter in question that renders reliance unwarranted.

Directors are not deemed to have the duties of trustees of a trust with respect to the corporation or with respect to any property held or administered by the Cooperative, including property that may be subject to the restrictions imposed by the donor or transferor of the property.

5.11. **Delegation of Duties.** Directors are entitled to select advisors and delegate duties and responsibilities to them, such as the full power and authority to purchase or otherwise acquire stocks, bonds, securities, and other investments on behalf of the Cooperative; and to sell, transfer, or otherwise dispose of the Cooperative's assets and properties at a time and for a consideration that the advisor deems appropriate, limited however, by the expressed provisions of the Act or Bylaws. The directors have no liability for actions taken or omitted by the advisor if the Board of Directors acts in good faith and with ordinary care in selecting the advisor. The Board of Directors may remove or replace the advisor, with or without cause.

5.12. **Interested Directors.** Contracts or transactions between directors, officers, or members who have a financial interest in the matter are not void or voidable solely for that reason. Nor are they void or voidable solely because the director, officer, or member is present at or participates in the meeting that authorizes the contract or transaction, or solely because the interested party's votes are counted for the purpose. However, the material facts must be disclosed to or known by the Board or other group authorizing the transaction, and adequate approval from disinterested parties must be obtained.

5.13. **Actions of Board of Directors.** The Board of Directors shall try to act by consensus. However, the vote of a majority of the directors present and voting at a meeting at which a quorum is present shall be sufficient to constitute the act of the Board of Directors unless the act of a greater number is required by law or the Bylaws. A director who is present at a meeting and abstains from a vote is considered to be present and voting for the purpose of determining the decision of the Board of Directors.

ARTICLE VI.

MEETINGS OF DIRECTORS

6.01. **Regular Meetings.** A regular meeting of the Board of Directors shall be held without notice, immediately after, and at the same place as, the annual meeting of the members. A regular meeting of the Board of Directors shall also be held monthly at such time and place in Crockett, county of Houston, as the Board of Directors may provide by resolution. Such regular monthly meeting may be held without notice other than such resolution fixing the time and place thereof.

6.02. **Special Meetings.** Special meetings of the Board of Directors may be called by the President or by any five directors, and it shall thereupon be the duty of the Secretary to cause notice of such meeting to be given as hereinafter provided. The President or the directors calling the meeting shall fix the time and place for the holding of the meeting.

6.03. **Notice of Directors' Meetings.** Written notice of the time, place, and purpose of any special meeting of the Board of Directors shall be delivered to each director not less than twenty-four (24) hours previous thereto either personally or by mail, by or at the direction of the Secretary, or upon default in duty by the Secretary, by the President, or by the directors calling the meeting. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail addressed to the director at his address as it appears on the records of the Cooperative, with postage thereon prepaid.

6.04. **Quorum.** A majority of the Board of Directors in office immediately before a meeting begins shall constitute a quorum. If less than such majority of the directors is present at said meeting, a majority of the directors present may adjourn the meeting from time to time; and provided further, that the Secretary shall notify any absent directors of the time and place of such adjourned meeting. The act of a majority of the directors present at a meeting at which a quorum is present shall be the act of the Board of Directors.

ARTICLE VII.

OFFICERS

7.01. **Number.** The officers of the Cooperative shall be a President, Vice President, Secretary, Treasurer, and such other officers as may be determined by the Board of Directors from time to time. The offices of Secretary and of Treasurer may be held by the same person.

7.02. **Election and Term of Office.** The officers shall be elected by ballot, annually by and from the Board of Directors at the meeting of the Board of Directors held immediately after the annual meeting of the members. If the election of officers shall not be held at such meeting, such election shall be held as soon thereafter as conveniently may be. Each officer shall hold office until the first meeting of the Board of Directors following the next succeeding annual meeting of the members or until his successor shall have been elected and shall have qualified. A vacancy in any office shall be filled by the Board of Directors for the unexpired portion of the term.

7.03. **Resignation or Removal of Officers** At any time, any officer may resign by delivering to the Board an oral or written resignation. Unless the resignation specifies a later effective date, an officer resignation is effective when received by the Board. If an officer resignation is effective at a later date, the Board may fill the vacant officer position before the later effective date, but the successor officer may not take office until the later effective date. Any officer or agent elected or appointed by the Board of Directors may be removed by the Board of Directors whenever in its judgment the best interest of the Cooperative will be served thereby.

7.08. **President.** The President shall:

- (a) be the principal executive officer of the Cooperative and, unless otherwise determined by the members of the Board of Directors, shall preside at all meetings of the members and the Board of Directors'
- (b) sign, with the joinder of the Secretary, 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 may be legally and expressly delegated by the Board of Directors or these Bylaws to some other officer or agent 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.

7.09. **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. The Vice President shall also perform such other duties as from time to time may be assigned to the Vice President by the Board of Directors.

7.10. **Secretary.** The Secretary shall:

- (a) be responsible for all the minutes of the meetings and of the Board of Directors;
- (b) see that all notices are duly given in accordance with these Bylaws or as required by law;
- (c) be custodian of the corporate records and of the seal of the Cooperative and affix the seal of the Cooperative to all documents which require the seal of the Cooperative to be affixed thereto and further require the signature of the Secretary according to the provisions of these Bylaws or other lawful authority, statutory, administrative, or otherwise;
- (d) keep a register of the names and post office addresses of all the members;
- (e) have general charge of the books of the Cooperative;
- (f) keep on file at all times a complete copy of the Articles of Incorporation and Bylaws of the Cooperative containing all amendments thereto (which copy shall always be open to the inspection of any member); and

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

7.11. **Treasurer.** The Treasurer shall:

- (a) have charge and custody of and be responsible for all funds and securities of the Cooperative;
- (b) be responsible for the receipt of and the issuance of receipts for all moneys due and payable to the Cooperative and for the deposit of all such moneys in the name of the Cooperative in such bank or banks as shall be selected in accordance with the provisions of these 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.

7.12. **Manager.** The Board of Directors may appoint a manager who may be, but who shall not be required to be, a member of the Cooperative. The manager shall perform such duties and shall exercise such authority as the Board of Directors may from time to time vest in the Manager.

7.13. **Bonds of Officers.** The Treasurer and any other officer or agent of the Cooperative charged with responsibility for the custody of any of its funds or property shall 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 it shall determine.

7.14. **Compensation.** The powers, duties and compensation of officers, agents, and employees shall be fixed by the Board of Directors, subject to the provisions of these Bylaws with respect to compensation for directors and close relatives of directors.

7.15. **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. Such reports shall set forth the condition of the Cooperative at the close of such fiscal year.

ARTICLE VIII.

NON-PROFIT OPERATION

8.01. **Interest of Dividends on Capital Prohibited.** The Cooperative shall at all times be operated on a 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.

8.02. **Patronage Capital in Connection with Furnishing Electric Energy.** In the furnishing of Cooperative Services, the Cooperative's operations shall be so conducted that all patrons will through their patronage furnish capital for the Cooperative. 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 its patrons for all amounts received and receivable from the furnishing of Cooperative Services in excess of operating cost and expenses properly chargeable against the furnishing of Cooperative Services. All such amounts in excess of operating cost and expenses at the moment of receipt by the Cooperative are received with the understanding that they are furnished by the patrons as capital. 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. 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, and the 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 account. All such amounts credited to the capital account of any patron shall have the same status as though they had been paid to the patron in cash in pursuance of a legal obligation to do so the patron had then furnished the Cooperative corresponding amounts for capital. The Board of Directors of the Cooperative are hereby authorized to provide for the payment of capital credits to its patrons on a percentage basis, or otherwise, at the sole discretion of the Board.

All other amounts received by the Cooperative from its operations in excess of costs and expenses shall, insofar as permitted by law, be (a) used to offset any losses incurred during the current or any prior fiscal year and (b) to the extent not needed for that purpose, allocated to its patrons on a patronage basis and any amount so allocated shall be included as part of the capital credited to the accounts of patrons, as herein provided.

In the event of dissolution 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. If, at any time prior to dissolution or liquidation, the Board shall determine that the financial condition of the Cooperative will not be impaired thereby, the capital credited to patrons' accounts may be returned in full or in part.

Capital credited to the account of each patron shall be assignable only on the books of the Cooperative pursuant to written instruction 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, acting under policies of general application, shall determine otherwise.

Notwithstanding any other provision of these Bylaws, the Board at its discretion, shall have the power at any time upon the death of any patron, if the legal representatives of his estate shall request in writing that the capital credited to any such patron be retired prior to the time such capital would otherwise be retired under the provisions of these Bylaws, the retired capital credited to any such patron immediately upon such terms and conditions as the Board, acting under policies of general application, and the legal representatives of such patron's estate shall agree upon; provided, however, that the financial condition of the Cooperative will not be impaired thereby.

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 patrons are bound by such contract, as fully as though each patron had individually signed a separate instrument containing such terms and provisions. The provisions of this article of the Bylaws shall be called to the attention of each patron of the Cooperative by posting in a conspicuous place in the Cooperative's office.

8.03. **Allocation of Capital Credits.** All persons to whom capital credits have been allocated shall keep the Cooperative informed of their current mailing addresses so 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 provided by these Bylaws, a person ceases to be a member or patron of the Cooperative and such person's existence and whereabouts are known to the Cooperative for a period of (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.

In the event 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 his last known address shown in the records of the Cooperative and shall be returned unclaimed to the Cooperative or in the event any such check shall remain uncashed and no claim therefor shall be asserted by such person/persons for a period of five (5) years after the date of issuance thereof, it is hereby mandated and determined that such person/persons shall thereafter have no right, title, or interest to any such capital credits, membership fees, deposits, or other amounts credited to him/her on the books of the Cooperative and all right, title, and interest therein and thereto shall be deemed to be assigned to and shall become the absolute property of the Cooperative.

ARTICLE IX

DISPOSITION OF PROPERTY

9.01. **Disposition of Cooperative Property.** The Cooperative may not sell, lease, or otherwise dispose of any of its property other than:

- (a) property which in the judgment of the Board of Directors neither is nor will be necessary or useful in operating and maintaining the Cooperative's system and facilities; provided, however, that all sales of such property shall not in any one year exceed in value ten per centum (10%) of the value of all the property of the Cooperative;
- (b) service of all kinds, including electric energy; and,
- (c) personal property acquired for resale.

Unless such sale, lease, or other disposition is authorized by two-thirds (2/3rds) of the members present, in person or by proxy, at a meeting thereof and the notice of such sale, lease, or other disposition shall have been contained in the notice of the meeting.

Notwithstanding any other provision of the Bylaws, the Cooperative may not sell, lease, or otherwise dispose of all or substantially all of the property of the Cooperative unless such sale, lease, or other disposition is authorized by three-fourths (3/4ths) of all members, at a meeting thereof and the notice of such sale, lease, or other disposition shall have been contained in the notice of the meeting. Votes must be cast by the persons present at the meeting and proxy voting is not permitted.

ARTICLE X

SEAL

10.01 **Corporate 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 XI

FINANCIAL TRANSACTIONS

11.01. **Contracts.** Except as otherwise provided in these Bylaws, the Board of Directors may authorize any officer or officers, agent or agents 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.

11.02. **Checks, Drafts, etc.** 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 by such officer or officers, agent or agents, employee or employees of the Cooperative and in such manner as shall from time to time be determined by resolution of the Board of Directors.

11.03. **Deposits.** All funds of the Cooperative shall be deposited from time to time to the credit of the Cooperative in such bank or banks as the Board of Directors may select.

11.04. **Required Books and Records.** The Cooperative shall keep correct and complete books and records of account. The Cooperative's books and records shall include:

- (a) A file-endorsed copy of all documents filed with the Texas Secretary of State relating to the Cooperative, including, but not limited to, the articles of incorporation, and any articles of amendment, restated articles, articles of merger, articles of consolidation, and statement of change of registered office or registered agent.
- (b) A copy of the Bylaws, and any amended versions or amendments to the Bylaws.
- (c) Minutes of the proceedings of the Board of Directors, and committees having any of the authority of the Board of Directors.
- (d) A list of the names and addresses of the directors, officers, and any committee members of the Cooperative.
- (e) A financial statement showing the assets, liabilities, and net worth of the Cooperative at the end of the three most recent fiscal years.

- (f) A financial statement showing the income and expenses of the Cooperative for the three most recent fiscal years.
- (g) All rulings, letters, and other documents relating to the Cooperative's federal, state, and local tax status.
- (h) The Cooperative's federal, state, and local information or income tax returns for each of the Cooperative's three most recent tax years.

11.05. **Inspection and Copying.** Any member, director, officer, or committee member of the Cooperative may inspect and/or obtain copies of books and records of the Cooperative pursuant to the policies establishing access, fees and procedures as approved by the Board of Directors .

11.06. **Fiscal Year.** The fiscal year of the Cooperative shall begin on the first (1st) day of July of each year and shall end of the thirtieth (30th) day of June of the succeeding year at 12:00 midnight.

ARTICLE XII

MISCELLANEOUS

12.01. **Waiver of Notice.** Any member or director may waive in writing any notice of a meeting required to be given by these Bylaws. The attendance of a member or director at any meeting shall constitute a waiver of notice of such meeting by such member or director, except in case a member or director shall attend a meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting has not been lawfully called or convened.

12.02. **Rules and Regulations.** The Board of Directors shall have power to make and adopt such rules and regulations, not inconsistent with law, the Articles of Incorporation, or these Bylaws, as it may deem advisable for the management of the business and affairs of the Cooperative.

12.03. **Accounting and System and Reports.** The Board of Directors shall cause to be established and maintained a complete accounting system which, among other things, and subject to applicable laws and rules and regulations of any regulatory body, shall conform to such accounting system as may from time to time be designated by the Administrator of the Rural Utilities Service of the United States of America. The Board of Directors shall also after the close of each fiscal year cause to be made a full and complete audit of the accounts, books, and financial condition of the Cooperative as of the end of such fiscal year. Such reports shall be submitted to the members at the next following annual meeting.

ARTICLE XIII

SPECIAL PROCEDURES CONCERNING MEETINGS

13.01. **Meeting by Telephone.** The Board of Directors, and any committee of the Cooperative may hold a meeting by telephone conference-call procedures in which all persons participating in the meeting can hear each other. The notice of a meeting by telephone conference must state the fact that the meeting will be held by telephone as well as all other matters required to be included in the notice. Participation of a person in a conference-call meeting constitutes presence of that person at the meeting.

13.02. **Decision Without Meeting.** Any decision required or permitted to be made at a meeting of the Board of Directors, or any committee of the Corporation may be made without a meeting. A decision without a meeting may be made if a written consent to the decision is signed by all of the persons entitled to vote on the matter. The original signed consents shall be placed in the Corporation minute book and kept with the Corporation's records.

ARTICLE XIV

INDEMNIFICATION

14.01. **When Indemnification is Required, Permitted, and Prohibited.**

(a) The Cooperative shall indemnify a director, officer, committee member, employee, or agent of the Cooperative who was, is, or may be named defendant or respondent in any proceeding as a result of his or her actions or omissions within the scope of his or her official capacity in the Cooperative. For the purposes of this article, an agent includes one who is or was serving at the request of the Cooperative as a director, officer, partner, venturer, proprietor, trustee, partnership, joint venture, sole proprietorship, trust, employee benefit plan, or other enterprise. However, the Cooperative shall indemnify a person only if he or she acted in good faith and reasonably believed that the conduct was in the Cooperative's best interests. In a case of a criminal proceeding, the person may be indemnified only if he or she had no reasonable cause to believe that the conduct was unlawful. The Cooperative shall not indemnify a person who is found liable to the Cooperative or is found liable to another on the basis of improperly receiving a personal benefit. A person is conclusively considered to have been found liable in relation to any claim, issue, or matter if the person has been adjudged liable by a court of competent jurisdiction and all appeals have been exhausted.

(b) The termination of a proceeding by judgment, order, settlement, conviction, or on a plea of nolo contendere or its equivalent does not necessarily preclude indemnification by the Cooperative.

(c) The Cooperative shall pay or reimburse expenses incurred by a director, officer, member, committee member, employee, or agent of the Cooperative in connection with the person's appearance as a witness or other participation in a proceeding involving or affecting the Cooperative when the person is not a named defendant or respondent in the proceeding.

(d) In addition to the situations otherwise described in this paragraph, the Cooperative may indemnify a director, officer, member, committee member, employee, or agent of the Cooperative to the extent permitted by law. However, the Cooperative shall not indemnify any person in any situation in which indemnification is prohibited by the terms of Section 1(a), above.

(e) Before the final disposition of a proceeding, the Cooperative may pay indemnification expenses permitted by the Bylaws and authorized by the Cooperative. However, the Cooperative shall not pay indemnification expenses to a person before the final disposition of a proceeding if: the person is a named defendant or respondent in a proceeding brought by the Cooperative or one or more members; or the person is alleged to have improperly received a personal benefit or committed other wilful or intentional misconduct.

(f) If the Cooperative may indemnify a person under the Bylaws, the person may be indemnified against judgments, penalties, including excise and similar taxes, fines, settlements, and reasonable expenses (including attorney's fees) actually incurred in connection with the proceeding. However, if the proceeding was brought by or on behalf of the Cooperative, the indemnification is limited to reasonable expenses actually incurred by the person in connection with the proceeding.

14.02. **Procedures Relating to Indemnification Payments.**

(a) Before the Cooperative may pay any indemnification expenses (including attorney's fees), the Cooperative shall specifically determine that indemnification is permissible, authorize indemnification, and determine that expenses to be reimbursed are reasonable, except as provided in Section 2(c), below. The Cooperative may make these determinations and decisions by any one of the following procedures:

- (i) Majority vote of a quorum consisting of directors who, at the time of the vote, are not named defendants or respondents in the proceeding.
- (ii) If such a quorum cannot be obtained, by a majority vote of a committee of the Board of Directors, designated to act in the matter by a majority vote of all directors, consisting solely of two or more directors who at the time of the vote are not named defendants or respondents in the proceeding.
- (iii) Determination by special legal counsel selected by the Board of Directors by vote as provided in Section 2(c)(i) or 2(c)(ii), or if such a quorum cannot be obtained and such a committee cannot be established, by a majority vote of all directors.
- (iv) Majority vote of members, excluding directors who are named defendants or respondents in the proceeding.

(b) The Cooperative shall authorize indemnification and determine that expenses to be reimbursed are reasonable in the same manner that it determines whether indemnification is permissible. If the determination that indemnification is permissible is made by special legal counsel, authorization of indemnification and determination of reasonableness of expenses shall be made in the manner specified by Section 2(a)(iii) above, governing the selection of special legal counsel. A provision contained in the articles of incorporation, the Bylaws, or a resolution of members or the Board of Directors that requires the indemnification permitted by Section 2 above, constitutes sufficient authorization of indemnification even though the provision may not have been adopted or authorized in the same manner as the determination that indemnification is permissible.

(c) The Cooperative shall pay indemnification expenses before final disposition of a proceeding only after the Cooperative determines that the facts then known would not preclude indemnification and the Cooperative receives a written affirmation and undertaking from the person to be indemnified. The determination that the facts then known to those making the determination would not preclude indemnification and authorization of payment shall be made in the same manner as a determination that indemnification is permissible under Section 2(a) above. The person's written affirmation shall state that he or she has met the standard of conduct necessary for indemnification under the Bylaws. The written undertaking shall provide for repayment of the amount paid or reimbursed by the Cooperative if it is ultimately determined that the person has not met the requirements for indemnification. The undertaking shall be an unlimited general obligation of the person, but it need not be secured and it may be accepted without reference to financial ability to make repayment.

(d) Any indemnification or advance of expenses shall be reported in writing to the members of the Cooperative. The report shall be made with or before the notice or waiver of notice of the next membership meeting, or with or before the next submission to members of a consent to action without a meeting. In any case, the report shall be sent within the 12-month period immediately following the date of the indemnification or advance.

ARTICLE XV

AMENDMENTS TO BYLAWS

15.01 **Amendments to Bylaws.** The Bylaws may be altered, amended, or repealed, and new Bylaws may be adopted by the Board of Directors. The notice of any meeting at which the Bylaws are altered, amended, or repealed, or at which new Bylaws are adopted shall include the text of the proposed Bylaw provisions as well as the text of any existing provisions proposed to be altered, amended, or repealed. Alternatively, the notice may include a fair summary of those provisions. The following types of Bylaw amendments may be adopted only by the members:

- (a) Setting or changing the authorized number of directors.
- (b) Changing from a fixed number to a variable number of directors or vice versa.
- (c) Increasing or extending the terms of directors.
- (d) Increasing the quorum for membership meetings.
- (e) Repealing, restricting, creating, expanding, or otherwise changing the proxy rights of members.
- (f) Authorizing or prohibiting cumulative voting.

ARTICLE XVI

GOVERNING PROVISIONS

16.01. **Legal Authorities Governing Construction of Bylaws.** The Bylaws shall be construed in accordance with the laws of the State of Texas. All references in the Bylaws to statutes, regulations, or other sources of legal authority shall refer to the authorities cited, or their successors, as they may be amended from time to time.

16.02. **Legal Construction.** If any Bylaw provision is held to be invalid, illegal, or unenforceable in any respect, the invalidity, illegality, or unenforceability shall not affect any other provision and the Bylaws shall be construed as if the invalid, illegal, or unenforceable provision had not been included in the Bylaws.

16.03. **Headings.** The headings used in the Bylaws are used for convenience and shall not be considered in construing the terms of the Bylaws.

16.04. **Gender.** Wherever the context requires, all words in the Bylaws in the male gender shall be deemed to include the female or neuter gender, all singular words shall include the plural, and all plural words shall include the singular.

16.05. **Parties Bound.** The Bylaws shall be binding upon and inure to the benefit of the members, directors, officers, committee members, employees, and agents of the Cooperative and their respective heirs, executors, administrators, legal representatives, successors, and assigns except as otherwise provided in the Bylaws.

CERTIFICATE OF SECRETARY

I certify that I am the duly elected and acting secretary of Houston County Electric Cooperative, Inc. and that the foregoing Bylaws constitute the Bylaws of the Cooperative. These Bylaws were duly adopted at a meeting of the Board of Directors held on September 13, 2007.

DATED: _____.

MITCHELL HUFF
Secretary of the Cooperative