

WELLS RURAL ELECTRIC COMPANY

Adopted: January 17, 1996

Reviewed: August 20, 1999

Revised: August 20, 1999

POLICY NO. 11-1

OFFERS TO ACQUIRE ALL OR SIGNIFICANT PORTIONS OF THE COOPERATIVES
ASSETS

I. BACKGROUND

Wells Rural Electric Company (the "Cooperative") was created, and for more than thirty-five (35) years has served, to bring electric service to homes, businesses, farms, and ranches in areas where service was not otherwise available, or low cost service was not available.

The Cooperative was organized to provide its members with adequate and reliable electric service to assist its members in the efficient and economical use of energy and to provide other necessary services to its members.

The Cooperative is a viable business, which is efficiently performing the services for which it was organized, providing reliable service at minimum costs.

The Cooperative is also a vital part of the communities which it serves and, as such, has concerns that include the interests of those communities.

The Cooperative is operated as a non-profit corporation, whereby all revenues in excess of the Cooperative's expenses are allocated to its members on a patronage basis as capital credited to the members' accounts, and those capital credits are retired to the members in accordance with state law and the Articles of Incorporation and Bylaws of the Cooperative.

II. OBJECTIVES

The Board of Directors recognizes the possibility that the Cooperative could in the future receive an offer to acquire all or substantially all of the Cooperative's assets, whether by purchase, merger, lease, or otherwise.

The Board of Directors has determined that in order for the Directors to carry out their duties to the Cooperative, minimize the costs and disruption to the Cooperative involved in undertaking repeated due diligence reviews, and abide by the terms of its Articles of Incorporation, Bylaws and any applicable laws or regulations, it is in the best interest of the Cooperative and its members to establish certain procedures to govern the Cooperative's receipt, consideration, and final action on an offer.

III. RESOLUTIONS OF BOARD

BE IT RESOLVED, that the Board of Directors of the Cooperative hereby adopts Policy No. 11-1 and the following Resolutions to establish certain policies and procedures relating to offers, which shall be followed unless the Board determines that an exception is required by extenuating circumstances;

BE IT FURTHER RESOLVED, that this policy is designed only to provide guidance for the Cooperative's Board of Directors and shall not be construed to create rights in the Cooperative's members, a party submitting an offer to the Cooperative, or any other person, corporation, or other entity;

BE IT FURTHER RESOLVED, that this policy shall not be amended or repealed except by an affirmative vote of three-fourths (3/4) of the Directors in office;

BE IT FINALLY RESOLVED, that subject to the foregoing Resolutions, Policy No. 11-1, a policy *On Offers To Acquire All Or Significant Portions Of The Cooperative's Assets*, is adopted, as to all of its terms and conditions.

IV. BOARD POLICIES AND PROCEDURES

- A. If an offer is received by the Cooperative and such offer is not a Qualifying Offer (as defined in paragraphs C 1-7, below), it shall be considered an "Inquiry". The recipient of any Inquiry shall notify the person, corporation, or other entity submitting the Offer of Inquiry, (the "Interested Party") that, under the terms of this Policy, the Board of Directors shall not consider an Inquiry or Offer unless it qualifies as a Qualifying Offer, as defined in Paragraphs C 1-7, of this Section IV.
- B. The chief executive officer of the Cooperative shall notify the Board of any Inquiry or Qualifying Offer immediately upon notice thereof.
- C. The Board of Directors shall considered only offers which meet all of the criteria listed in this paragraph, in which case it shall be considered a Qualifying Offer. If at any time it is determined that an offer does not meet all of the criteria in this paragraph, it shall be rejected by the Board, and the person, corporation, or other entity submitting an offer the "Interested Party" shall be notified of the rejection. The Interested Party, however, shall be given an opportunity to submit additional information to meet these criteria within a reasonable period of time, not to exceed three (3) months.
 1. A Qualifying Offer must be a written offer, containing the acquisition price and all other material terms, which is binding upon the Interested Party until a specified date or until rejected.
 2. A Qualifying Offer must specify the date on which it will expire if not

accepted by the Cooperative;

3. A Qualifying Offer must disclose the identity of the Interested Party and be executed by authorized representatives of the Interested Party.
4. A Qualifying Offer must contain the names, addresses, and telephone numbers of persons representing the Interested Party with whom the Board may communicate and from whom it may secure authoritative answers regarding the Qualifying Offer;
5. In light of the expense in responding to a Qualifying Offer, A Qualifying Offer must be accompanied with an Escrow Agreement acceptable to the Cooperative, which Agreement shall require the Interested Party to deposit an amount equal to at least 10% of the book value of Total Utility Plant (the "TUP") in an escrow account. The terms of the Escrow Agreement shall provide that the principal amount of the deposit may be drawn on by the Cooperative to:
 - a. Pay for all costs (including accounting, engineering and legal) of studies, reviews, analyses, and appraisals by and for the Cooperative in its evaluation of the Qualifying Offer; and
 - b. Pay costs incurred by the Cooperative in seeking regulatory approvals.

If the offer is withdrawn or rejected, any remaining balance in the escrow account shall be paid to the Interested Party when the Board certifies that all costs set forth in (a) and (b) of this section have been paid in full.

6. A Qualifying Offer must provide that the Interested Party will not issue any press releases or discuss the Inquiry or the Qualifying Offer with the media without prior written consent of the Cooperative in each instance. The Qualifying Offer must contain a provision that the Interested Party will refrain from issuing misleading statements or advertising.
 7. A Qualifying Offer must not be in direct conflict with the terms of the Cooperative's Articles of Incorporation, Bylaws, this policy, or any applicable law or other policies.
 8. A Qualifying Offer must include a Confidentiality Agreement with the Interested Party providing that all information provided by the Cooperative and all information received from the Interested Party shall remain confidential and not subject to any media, member, or public disclosure.
- D. Upon a determination by the Board that it has received a Qualifying Offer, the

Board shall:

1. Designate an individual from the Cooperative to receive all communications, including telephone calls and written communications, from the Interested party, the members, and the media. This individual shall understand and follow this policy, but not having authority to bind the Board or the Cooperative on any matter regarding the Qualifying Offer.
2. Notify the Cooperative's members of the receipt of the Qualifying Offer. The Notice should include the following:
 - a. A summary of the Qualifying Offer;
 - b. A statement that the Board has taken the Qualifying Offer under advisement, as is required by the terms of this Board policy;
 - c. A brief description of the procedures the Board shall follow in evaluating the Qualifying Offer.
 - d. A statement that the members may review a copy of the Qualifying Offer at the Cooperative's office during its regular business hours; and
 - e. The name of the person whom the members may contact with questions regarding the Qualifying Offer.
3. Send a copy of the Qualifying Offer to its attorney.
4. Send a copy of the Qualifying Offer to all lenders and request a statement as to the effects of the Qualifying Offer upon the Cooperative's Mortgage and Loan Agreement or other instruments relating to the Cooperative's outstanding debt.
5. Obtain at least two (2) independent appraisals concerning the value of the Cooperative and its assets. The appraisal should use commonly accepted valuation methods.
6. Obtain a comparison of the Cooperative's and the Interest Party's present and reasonably foreseeable future rates; fees and charges, including service extension requirements; other service rules and regulations; adequacy and reliability of service; and any other considerations relevant to the provision of electric service.
7. Request detailed information from the Interested Party, such as annual reports, tax returns, and form 10-K filings dating back at least five (5) years;

full copies of all relevant audits, internal planning documents, employee policy manuals and union contracts; a current stockholder list; a list of all pending court and administrative proceedings; and any relevant operations manuals, engineering studies, construction plans, and environmental impact statements.

8. Request the Interested Party to submit an expert opinion on the potential tax liabilities of the transaction to the Cooperative and the members.
 9. Undertake any other investigations, studies, or comparisons which the Board considers relevant to its evaluation of the Qualifying Offer.
 10. Evaluate the Qualifying Offer in accordance with the terms of this policy, considering the evaluation criteria set forth in paragraph II, below, and any other criteria which the Board deems relevant.
- E. After evaluation, if the Board determines that the Qualifying Offer should be rejected, it shall notify the Interested Party and the Cooperative's members of the reasons for the rejection. The Board shall also notify its attorney, all lenders of the Board's decision.
- F. If, after evaluation, a three-fourths (3/4) majority of the Board determines that the sale, lease, merger, or other acquisition proposed by the Qualifying Offer is in the best interest of the Cooperative and its members, the

Board shall notify the Interested Party of its intent to further pursue the transaction, subject to written agreement by the Interested Party to the following term as and conditions:

1. That the Cooperative is released from or otherwise satisfies its Wholesale Power Contract;
2. That any adverse tax impacts upon the Cooperative as an entity and its present and former members will be minimized to the extend practicable;
3. That all existing employees of the Cooperative are offered continued employment upon terms at least equal to those enjoyed by the Cooperative's employees at the time the Qualifying Offer was submitted to the Board. The terms to be considered shall include wages, salaries, severance benefits, insurance and pension benefits, fringe benefits, rank and job title, union membership, place of employment, and residence;
4. That the Interested Party will indemnify and hold harmless any employees, Directors, officers, agents, servants, attorneys, accountants, consultants, representatives, affiliates, subsidiaries, and insurers of and all others acting

- in privity with the Cooperative for any actions taken in connection with the Qualifying Offers;
5. That the total consideration for the acquisition will be paid directly to the Cooperative or its account; provided, however, that a Qualifying Offer of merger may provide for acquisition of stock by the Cooperative's members in exchange for their capital credits; and
 6. That the transaction will become void if all regulatory and contractual approvals are not obtained within a reasonable time after member approval.
- G. Once the above procedures have been followed, the Board shall notify the members in writing of its intent to submit the Qualifying Offer to the membership for a vote of consent. The notice shall include a summary of the final terms and conditions of the Qualifying Offer. A membership meeting shall not be called for the purpose of voting on the Qualifying Offer.
- H. The Board shall seek the consent of the members of the Cooperative as to acceptance of the Qualifying Offer. The consent shall be sought by mail and under the terms of the NRS 82.276.
- I. If two-thirds (2/3) of the members vote to consent to the Qualifying Offer, the Board shall take all actions necessary to finalize the transaction and, if necessary, dissolve and wind up the business of the Cooperative; provided, however, that it shall be the responsibility of the Interested Party to obtain all necessary regulatory and contractual approvals. Unless such approvals are obtained within a reasonable time, the transaction shall be deemed to be null and void.
- J. If at any time a Qualifying Offer is rejected, whether by the Board or by the members, or if a Qualifying Offer is withdrawn by the Interested Party, any further such Qualifying Offer by the Interested Party or any of its affiliates or subsidiaries within two (2) years after the date of rejection shall be rejected by the Board unless it materially differs from the withdrawn or rejected Qualifying Offer.
- K. As provided in paragraph IV(D)(12) above, the Board may consider any criteria which the Board deems relevant in its evaluation of a Qualifying Offer. To the extent practicable, and so long as not inconsistent, with the best interests of the members, the Board shall consider each of the following criteria:
1. Whether the Qualifying Offer is in the best interest of the Cooperative's present and future members. In determining whether the Offer is in the members' best interest, the Board shall consider both economic and non-economic matters, both at the present time and for the reasonably foreseeable future.

2. The results of the independent appraisals concerning the fair value of the Cooperative. Although the Board shall consider all such information and opinions, it shall have the final responsibility to make the Cooperative's official determination of value and whether acceptance of the Qualifying Offer is in the best interests of the Cooperative and its members.
3. Whether the Qualifying Offer is in compliance with all applicable laws, regulations, and requirements of the Cooperative's Articles of Incorporation.
4. Whether the Qualifying Offer complies with all requirements of the Cooperative's mortgage and loan documents.
5. Whether the Qualifying Offer is in compliance, or would allow the Cooperative to comply, with all contractual obligations with other parties.
6. Whether rates, fees, and other charges, and service rules and regulations of the Interested Party will be at least equivalent to, or better than, those of the Cooperative, both at the time of the Qualifying Offer and for the reasonably foreseeable future, but for a minimum of five (5) years. In evaluating rates, the Cooperative's capital credit system shall be taken into account. In addition, the Board shall consider how the members' rates may be impacted in the future by the cost of the acquisition.
7. Whether the Interested party's electric service would be at least as reliable as that provided by the Cooperative at the time of the Qualifying Offer and as projected into the reasonably foreseeable future.
8. Whether other service functions affecting the members would be at least as good as those afforded by the Cooperative.
9. Whether the Interested Party is financially able to consummate the Qualifying Offer. The Board should also consider the source and feasibility of the proposed financing.
10. Whether the Interested party would continue or enhance the Cooperative's community involvement.

V. RESPONSIBILITY

The Board of Directors in coordination with the Chief Executive Officer shall be responsible for administering this policy.