

ARTICLE VIII. COOPERATIVE NON-PROFIT OPERATION

Section 1. Definitions. In this Article:

1. “Patron” shall mean (a) a member, as defined in Article VI of these By-Laws, to whom the Corporation furnishes electric service (i.e. electric power and energy) on a cooperative basis, (b) a member to whom the Corporation also furnishes other utility type services on a cooperative basis and (c) a non-member to whom the Corporation furnishes electric service and/or other utility type services on a cooperative basis by authorized contractual authority. Notwithstanding any other provision of these By-laws, the Corporation does not provide electric service to non-members.

2. “Patronage capital” shall mean the capital credited to the capital accounts of patrons on the basis of patronage pursuant to the pre-existing obligation to do so in Section 3.1 of this Article VIII.

3. “Other utility type services” shall mean goods and services provided by the Corporation to its patrons on a cooperative basis, other than the furnishing of electric service, pursuant to the pre-existing obligation to do so as defined and provided for by resolutions and policies of the Board of Directors and other contractual authority.

4. “Cooperative services” shall mean electric service and other utility type services purchased or contracted for by patrons and for which the Corporation has a pre-existing obligation to allocate patronage capital to the patrons purchasing such services.

Section 2. Interest or Dividends on Capital Prohibited. The Corporation 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 Corporation on any capital furnished by its patrons.

Section 3. Patronage Capital in Connection with Furnishing Cooperative Services.

1. In the furnishing of cooperative services the Corporation's operations shall be so conducted that all patrons will, through their patronage, furnish capital for the Corporation. In order to induce patronage and to assure that the Corporation will operate on a non-profit basis, the Corporation is obliged to account on a patronage basis to all its patrons for all amounts received and receivable from and directly related to the furnishing of cooperative services in excess of costs and expenses properly chargeable against the furnishing of cooperative services, hereinafter referred to as margins. All such margins at the moment of receipt by the Corporation are received with the understanding that they are furnished by the patrons as capital. The Corporation is obligated to pay by credits to a capital account for each patron all such margins. The books and records of the Corporation 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 Corporation 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, and the patron had then furnished the Corporation corresponding amounts for capital.

2. If the costs and expenses exceed the amounts received and receivable from and directly related to the furnishing of cooperative services, the Board of Directors shall have the authority to prescribe the manner in which such loss shall be handled, including but not limited to (1) the cancellation of prior year capital credits of the loss year patrons, (2) the carrying forward of the loss to offset the future allocations of the margins from and directly related to the furnishing of cooperative services. The cancellation of prior year patronage capital will be done in the order of priority against capital first received by the Corporation from those patrons who were active patrons of the Corporation in the year of the loss. Losses subject to this Section 3.2 will be determined as provided under Section 3.3, which provides the methods for calculating and allocating patronage capital.

3. (a) Notwithstanding any provision in Section 3 of this Article VIII, it is understood that the margins and losses for each fiscal year are calculated separately for each distinctive cooperative service or division. The margins for each respective cooperative service or division shall be allocated to the capital account of patrons on the basis of patronage solely to the patrons of each cooperative service or division. The Board of Directors has the authority to choose the method for determining the patronage and allocation of margins for each cooperative service or division provided that such method is fair and equitable to the patrons.

(b) For each fiscal year and with respect to the furnishing of electric service, the amount of patronage capital credit due the patrons from the furnishing of electric service may be established by determining such margin from all patrons, and crediting the same on a patronage basis to all patrons' capital accounts; or, the patrons

may be divided into classifications according to the type of service used by the patron, the type of energy purchased by the patron, the amount of energy purchased by the patron per the rate schedule under which the patron takes service, or any combination of factors and by proper cost accounting methods the amount of patronage capital credit properly allocable to each classification of patrons may be determined and credited on a patronage basis to the patrons within each classification. The method used each year shall be entirely within the discretion of the Board provided that such method is fair and equitable to the members.

(c) For each fiscal year, the Board of Directors shall also choose the method for handling losses for each cooperative service or division in accordance with the provisions of Section 3.2 of this Article VIII.

(d) For purposes of this provision, the margins and losses from each cooperative service or division shall not be combined with the margins and losses from other cooperative services or divisions unless (1) the Corporation provides a written notification and explanation to the patrons of the proposed netting and of the impact of such proposed netting on the patronage capital allocations to be received by the patrons and (2) the patrons approve of the netting by a simple majority of the Corporation's patrons for each cooperative service or division in attendance at the annual meeting.

(e) Notwithstanding any provision in Article VIII, the margins from and directly related to the furnishing of cooperatives services, which are required to be allocated to the patrons on the basis of patronage, shall be the greater of regular federal taxable income or alternative minimum taxable income as determined before the

exclusion for allocations of patronage capital under federal law. The Board of Directors, however, does have the authority to adopt a reasonable alternative in lieu of the greater of regular federal taxable income or alternative minimum taxable income.

4. All other amounts received in excess of costs and expenses by the Corporation other than from and directly related to the furnishing of cooperative services may, in the discretion of the Board and insofar as permitted by law, be:

(a) used to offset any losses incurred during the current or any prior fiscal year, as may be determined in Section 3.2;

(b) used to establish reserves and other capital not assignable to the patrons prior to the dissolution of the Corporation; and

(c) to the extent not needed for these purposes, allocated on a patronage basis and included and treated as a part of the patronage capital credited to accounts of the patrons as in this article provided.

5. At any time that a patron is delinquent in payment for services received, in excess of sixty (60) days, or terminates service with the Corporation and has any obligation for service due and owing the Corporation, then and in that event:

(a) All patronage capital that have been theretofore credited to said patrons, but not retired, are automatically, by this provision, assigned to the Corporation, and shall remain so assigned until the obligation, with any interest accruing thereon, has been paid to the Corporation in full;

(b) At the sole option of the Board of Directors, the Corporation may, without further agreement or consent of the patrons, have and hold a security interest in and to the patronage capital so assigned. This is based upon the provisions of this

Section 3.5 of Article VIII and (1) the agreement of the patron who consented to the possible imposition of a security interest by signing the Application for Service and Membership, which, among other matters, provided that the patron would be “bound by the policies, rates, rules, regulations, By-laws and Articles of Incorporation of the corporation as any or all of the same may be from time to time amended, which constitutes at the sole option of the Board of Directors a Security Agreement; and (2) Article VIII, Section 6 which provides,” The patrons of the Corporation by dealing with the Corporation, acknowledge that the terms and provisions of the Articles of Incorporation and these By-Laws, as the same may be from time to time amended, shall constitute and be a contract between the Corporation and each patron and both the corporation and the patrons are bound by such contract, as fully as though the Corporation and each patron had individually signed a separate instrument containing such terms and provisions. The provisions of these By-Laws shall be called to the attention of each patron of the Corporation by posting in a conspicuous place in the Corporation’s office, or making copies thereof available upon request; and

(c) If approved by a majority vote of the Board of Directors, in any particular case, the Security Agreement will provide to the Corporation a first lien on the patron’s patronage capital and the right to receive the same as the patronage capital may be retired and paid from time to time. The Corporation, in its discretion, may file a UCC Financing Statement to secure and perfect the Corporation’s secured interest in the capital credits. Until such UCC Financing Statement is filed the Security Agreement shall not be in effect.

(d) At such time as said assigned patronage capital or any portion thereof are, pursuant to Section 3.5 hereof, retired and paid, the same shall not be paid to the patron, but shall be applied and offset to the payment of any and all outstanding obligations owed the Corporation by said patron. In the event the patronage capital credits being retired and paid exceed the total obligation due from the patron to the Corporation, the remaining balance shall be paid to the patron. This provision shall not, in any way, impair the Corporation's legal rights to pursue collection of any outstanding monies due the Corporation from any patron. The right of any patron to receive retired patronage capital due on his or her account does not become payable by the Corporation until such time as such patronage capital is actually declared by the Board to be retired and paid, and shall not constitute an offset to reduce any sums due the Corporation until retired and paid. Provided further that any assignment of patronage capital to a third party by a patron shall be effective only to the extent that any patronage capital being paid through retirement exceed the obligation due to the Corporation at the time of retirement and payment of such patronage capital. At such time as all obligations to the Corporation by the patron have been paid in full, remaining patronage capital, if any, shall be hereby re-assigned to the patron. The Board is authorized, but not required, to negotiate patronage capital settlement arrangements with bankrupt patrons and estates of deceased natural persons.

6. In the event of dissolution or liquidation of the Corporation after all outstanding indebtedness of the Corporation shall have been paid, outstanding patronage capital shall be retired without priority on a pro rata basis before any payments are made on account of property rights of patrons. If, at any time prior to

dissolution or liquidation, the Board shall determine that the financial condition of the Corporation will not be impaired thereby, the capital then credited to patrons' accounts may be retired in full or in part, and the Board shall determine the method, basis, priority and order of retirement, if any, for all amounts heretofore and hereafter furnished as capital. Notwithstanding any other provision of these By-laws regarding the method, basis, priority and order of retirement of patronage capital the Board of Directors is authorized, but is not required, to consider, offer and/or negotiate the retirement of amounts furnished as capital at a discount. The discounted portion of the retirement is an irrevocable assignment and contribution of capital that is neither assignable nor distributable except in accordance with the property rights of patrons upon the dissolution of the Corporation. Additionally, the method, basis, priority and order of retirement shall be determined separately for each cooperative service based on the operational and contractual needs of each. Therefore, the Board of Directors shall have the power to retire patronage capital of each division independent of any other division. In no event, however, shall patronage capital be retired if such retirements would violate any applicable law or regulation, or if such retirements would breach any provision of any mortgage or loan contract executed by the Corporation upon the authority of the Board of Directors pursuant to the provisions of Article V of these by-laws.

7. Capital credits to the account of each patron, subject to any prior assignment to the Corporation pursuant to subsection 5 hereof, may be assigned or transferred and may be transferred by operation of law, subject to such restrictions and requirements as the Board, acting under policies of general application, may from time to time establish. No assignment or transfer shall be binding upon the Corporation

unless there is furnished to the Corporation written evidence of the assignment or transfer in a form satisfactory to the Corporation.

Section 4. Unclaimed Retirements of Patronage Capital.

1. It is the responsibility of every patron or former patron (both herein referred to as patron), and the heirs, executors, administrators, successors and assigns of every patron, to keep the Corporation informed as to the patron's current location and address, from the time of first becoming a patron to the time that all of the patronage capital credited to that patron's account have been paid to the patron or assigned to the Corporation.

2. Not more than six (6) months after any portion of the outstanding patronage capital of a patron is determined to be retired, the Corporation shall mail a notice of availability or a check in retirement of said patronage capital to the last known address of the patron, as it appears in the records of the Corporation. The foregoing is hereinafter referred to as the "original mailing."

3. Patronage capital of a patron, which is (1) declared retired and payable pursuant to any provision or subsection of Section 3 of this Article VIII and (2) remains unclaimed for one year after the retirement is authorized and declared payable, shall be assigned to the Corporation as a contribution of capital if:

(a) The Corporation made the original mailing not more than six (6) months from the date the Board approved the retirement; and

(b) The patron fails to respond to such notification within thirty (30) days after his/her/its receipt of the notification. The notification is deemed to have been

received by the patron at the end of the third business day the notification is mailed by the Corporation.

4. In the event a patron is located, the Board may authorize, under a policy of general application, payment to such patron of the amount of any unclaimed patronage capital retirement that was issued to and assigned by such patron to the Corporation as a contribution to capital. Otherwise, the assignment of such unclaimed retirements of patronage capital to the Corporation as a contribution to the Capital pursuant to Section 4.3 above is neither assignable nor distributable to the patrons except in accordance with the property rights of patrons upon the dissolution of the Corporation.

Section 5. Property Rights and Interests of Patrons. Upon dissolution of the Corporation, after (a) all debts and liabilities of the Corporation shall have been paid, and (b) all capital furnished through patronage shall have been retired as provided in these By-laws, the remaining property and assets of the Corporation shall be distributed among the patrons and former patrons (referred collectively in this Section 5 of Article VIII as "patrons") in the proportion which the aggregate patronage of each bears to the total patronage of all patrons during that period, insofar as is consistent with law and practicable as determined by the Board of Directors. If the Corporation operates multiple divisions, then the provisions of this Section 5 of Article VIII will be applied on a divisional basis and on the basis of historic patronage of the members of such dissolving division, to the extent practicable.

Section 6. Acknowledgment of Patrons. The patrons of the Corporation, by dealing with the Corporation, acknowledge that the terms and provisions of the Articles

of Incorporation and these By-Laws, as the same may be from time to time amended, shall constitute and be a contract between the Corporation and each patron, and both the Corporation 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 these By-Laws shall be called to the attention of each patron of the Corporation by posting in a conspicuous place in the Corporation's office, or making copies thereof available upon request.