

THE DUTIES AND RESPONSIBILITIES OF THE MODERN DAY DIRECTOR

Wow! Times have really changed. Your co-op has evolved into a vibrant and dynamic operation as we have entered into the 21st century. Current inquiries by members have indicated that how your Board of Directors operates in today's fast paced and ever-changing landscape may not be fully understood. Various legislative bodies, local, state, and national, constantly bring new demands to the table. A new federal law, Sarbanes-Oxley, while not yet directly applying to electric co-ops, has brought additional standards of operation to all Boards as a result of the widely publicized Enron scandal. Additionally, agencies such as the Electric Reliability Council of Texas (ERCOT), the Public Utility Regulatory Policies Act (PURPA), and others have many directives that apply either directly or indirectly to HILCO in various ways. Our statewide association, Texas Electric Cooperatives (TEC), and the National Rural Electric Co-Op Assn. (NRECA) have established a series of educational and training classes to help directors keep up to date on the changes, requirements, and suggested methods of addressing the challenges facing electric co-ops today.

Being a diversified distribution co-op, HILCO Electric Co-Op (HEC) operates both a not for profit electric distribution system and a for profit subsidiary, HILCO United Services (HUS). Any profits from HUS operations are used to either reduce the costs of operations for HILCO Electric or provide additional products and services to our electric members and the surrounding communities as a part of our overall Cooperative Mission Statement. Activities such as owning and operating several water companies, providing our members with propane through their own company, and being involved in both residential and commercial development projects fall under the HUS business operations. The management of several non-owned water companies by HEC also brings in additional revenue by improving the area quality of life and spurring growth. HEC is also exploring new opportunities, such as Broad Band Internet over Power Lines (BPL) which would provide low cost, high speed internet access for rural HILCO members along with other member requested services.

Directors are elected by the members for three year terms, and through our annual survey along with personal contacts, we strive to provide the products and services wanted by you, the member. The carrying out of these duties has evolved into a fairly complex and time consuming set of demands. We are advised almost daily by e-mail, phone, and personal contact of issues that are of concern to our members, and of both new and already existing plans and challenges. We also receive several monthly publications advising us of current issues facing co-ops. After receiving our Board packet, requiring an hour or more review time, we hold a monthly meeting, lasting four to six hours, to keep up to date and make decisions moving our co-op forward. Typical issues discussed cover areas such as:

- Work Order review (we add approximately \$6 million or more in new plant each year, due to growth and upgrades of existing facilities)
- Review of the past months Engineering and Operations activities, including outages and repairs
- Review for appropriate action to be taken on the various current and proposed programs and activities, as presented by staff
- Review monthly financial data to monitor the fiscal status of our co-op with the goal of insuring adequate resources to carry out our objectives and comply with lending institution guidelines
- Receive briefings from legal counsel concerning any matters before the co-op

- Review other matters as submitted by staff, including briefings on upcoming association meetings and training/educational opportunities
- Review of all the for-profit HUS activities (water, propane, internet)

Another area of responsibility concerns the community involvement issues that routinely come up. Participation in local civic events and attending various political activities that our elected officials hold, as recommended by NRECA, allow us to develop and build the relationships necessary to protect the interests of HILCO. Additionally, attending and participating in charitable organization activities, presentation of scholarships at various school districts in our five county service area, and attending other community assistance functions are examples of other duties a director carries out during the month. Individual contact with members calling to discuss some particular matter of concern to them comes under this community involvement heading.

All of these activities do come at a dollar cost to the co-op as seven directors put in the time to ensure that our management team has the tools needed to provide what our members want, and that we are in compliance with all applicable legal requirements. As we have grown from around \$32 million in revenues in 2000 to about \$60 million in 2005, along with adding about 5000 meters actual Board expenses have totaled approximately .004 of our revenues this year. For 2006, Board expenses came in under budget. The 2007 Board budget was set with an approximate 10% reduction from the 2006 budget. A significant portion of these expenses are paid to cover the costs of training, education, transportation and lodging. All these activities that cause expenses to be incurred are allowed by the co-op By- Laws and are approved by the full board. Based upon information available from TEC and NRECA, we believe that these expenses are in line with other co-ops of our size. These expenses do vary among individual directors as each contributes different amounts of time in carrying out our duties and responsibilities. Some directors are asked to represent HILCO at other monthly meetings of our generation and transmission co-ops in both primary delegate and alternate delegate rolls, along with assuming occasional committee duties, thus incurring additional expenses for this extra work done on behalf of the co-op.

We constantly keep in mind our need to perform these duties in a business like and financially responsible manner. The results are that we have been able to return capital credit contributions to the members five years in a row while maintaining rates that are typically 10% to 20% lower than our competitors. As directors, we are required to make decisions, often involving millions of dollars, affecting HILCO and its members for years to come. We take these duties and responsibilities very seriously and commit many hours of our time in preparation for our decision making.

In summary, we, the Board, hope that you are happy with the current status of your co-op and welcome your input and suggestions. As we have just recently started a new year, we sincerely wish that it will be a happy and prosperous one for all.

Sincerely, HILCO Board of Directors

Steve Sawyer, President
 Bill Allen, Vice- President
 Margaret Hill, Secretary-Treasurer
 George Thiess
 Dave Smith
 Kyle Cross