

SAM HOUSTON ELECTRIC COOPERATIVE, INC.
BYLAWS
As Amended July 23, 2008

ARTICLE I
MEMBERSHIP

SECTION 1.01. Eligibility. Any natural person, firm, association, corporation, business trust, partnership, Federal agency, State or political subdivision thereof, or any body politic (each hereinafter referred to as "person") shall be eligible to become a member of, and, at one or more premises owned or directly occupied or used by that person, to receive electric service from Sam Houston Electric Cooperative, Inc. (hereinafter called the "Cooperative"). No person shall hold more than one membership in the Cooperative.

SECTION 1.02. Application for Membership; Renewal of Prior Application. Application for membership wherein a person (referred to in this Article as "applicant") shall agree to purchase electric power and energy from the Cooperative and to be bound by and to comply with all of the other provisions of the Cooperative's Articles of Incorporation and Bylaws, and all rules, regulations and rate schedules established pursuant thereto, as all the same then exist or may thereafter be duly adopted or amended (the obligations embraced by such agreement being hereinafter called "membership obligations") — shall be made in writing on such form as is provided therefore by the Cooperative. With respect to any particular classification of service for which the Board of Directors shall require it, such application shall be accompanied by a supplemental contract, executed by the applicant on such form as is provided therefore by the Cooperative. The membership application shall be accompanied by any service security deposit, service connection deposit or fee, facilities extension deposit, or contribution in aid of construction that may be required by the Cooperative and such service security deposit, service connection deposit or fee, facilities extension deposit, or contribution in aid of construction, if any shall be refunded in the event the application is denied by Board resolution. Any former member of the Cooperative may, by the sole act of paying any outstanding account balance (together with any service security deposit, service connection deposit or fee, facilities extension deposit, or contribution in aid of construction that may be required by the Cooperative), renew and reactivate any prior application for membership to the same effect as though the application had been newly made on the date of such payment.

SECTION 1.03. Membership; Service Security and Facilities Extension Deposits; Contribution in Aid of Construction. The approved membership application (together with any service security deposit, service connection deposit or fee, facilities extension deposit, or contribution in aid of construction or any combination thereof, if required by the Cooperative) shall entitle the member to one service connection. A service connection deposit or fee, in such amount as shall be prescribed by the Cooperative (together with service security deposit, facilities extension deposit, or contribution in aid of construction or any combination thereof, if required by the Cooperative), shall be paid by the member for each additional service connection requested by the member.

SECTION 1.04. Joint Membership. A husband and wife, by specifically so requesting in writing, may be accepted into joint membership or, if one of them is already a member, may automatically convert such membership into a joint membership. The words "member", "applicant", and "person", as used in these Bylaws, shall include a husband and wife applying for or holding a joint membership, unless otherwise clearly distinguished in the text; and all provisions relating to the rights, powers, terms, conditions, obligations, responsibilities and liabilities of membership shall apply equally, severally and jointly to them. Without limiting the generality of the foregoing;

(a) the presence at a meeting of either or both shall constitute the presence of one member and a joint waiver of notice of the meeting;

(b) the vote of either or both shall constitute, respectively, one joint vote: PROVIDED, that if both be present but in disagreement on such vote, each shall cast only one-half (1/2) vote;

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

(d) suspension or termination in any manner of either shall constitute, respectively, suspension or termination of the joint membership;

(e) either, but not both concurrently, shall be eligible to serve as a director of the Cooperative, but only if both meet the qualifications required therefore; and

(f) neither will be permitted to have any additional service connections except through their one joint membership.

SECTION 1.05. Acceptance into Membership. Upon complying with the requirements set forth in Section 1.02, any applicant shall automatically become a member on the date of his or her connection for electric service; PROVIDED, that the Board of Directors by resolution may deny an application and refuse to extend service upon its determination that the applicant is not willing or is not able to satisfy and abide by the Cooperative's terms and conditions of membership or that such application should be denied for other good cause; PROVIDED FURTHER, that any person whose application, for sixty (60) days or longer, has been submitted to but not approved by the Board of Directors, by filing written request therefore with the Cooperative at least thirty (30) days prior to the next meeting of the members, may have such application submitted to and approved or disapproved by the vote of the members at such meeting, at which the applicant shall be entitled to be present and be heard.

SECTION 1.06. Purchase of Electric Power and Energy; Power Production by Member; Application of Payments to All Accounts. The Cooperative shall make all reasonable efforts to furnish its members with adequate and dependable electric service, although it cannot, and therefore does not guarantee a continuous and uninterrupted supply thereof; and each member, for so long as such premises are owned or directly occupied or used by the member, shall purchase from the Cooperative all central station electric power and energy purchased for use on all premises to which electric service has been furnished by the Cooperative pursuant to his or her membership, unless and except to the extent that the Board of Directors, in writing, may waive such requirement, and shall pay therefore at the times, and in accordance with, the rules, regulations, and rate schedules (including any monthly minimum amount that may be charged without regard to the amount of electric power and energy actually used) established by the Board of Directors and in effect from time to time as provided by law and, if in effect, in accordance with the provisions of any supplemental contract that may have been entered into as provided for in Section 1.02. Production or use of electric energy on such premises, regardless of the source thereof, by means of facilities which are interconnected with Cooperative facilities shall be subject to appropriate regulations as shall be fixed from time to time by the Cooperative and placed into effect as provided by law. Each member shall also pay all other amounts owed by that member to the Cooperative as and when they become due and payable. When the member has more than one service connection from the Cooperative, any payment by that member for service from the Cooperative shall be deemed to be allocated and credited on a pro rata basis to his or her outstanding accounts for all such service connections, notwithstanding that the Cooperative's actual accounting procedures do not reflect such allocation and proration.

SECTION 1.07. Excess Payments to Be Credited as Member-Furnished Capital. All amounts paid for electric service in excess of the cost thereof shall be furnished by members as capital, and each member shall be credited with the capital so furnished as provided in Article VII of these Bylaws.

SECTION 1.08. Wiring of Premises; Responsibility Therefore; Responsibility for Meter Tampering or Bypassing and for Damage to Cooperative Properties; Extent of Cooperative Responsibility; Indemnification. Each member shall cause all premises receiving electric service pursuant to his or her membership to become and to remain wired in accordance with the specifications of the Texas Insurance Commission, the National Electric Code, any applicable state code or local government ordinances, and of the Cooperative. Each member shall be responsible for — and shall indemnify the Cooperative and its employees, agents and independent contractors against death, injury, loss or damage resulting from any defect in or improper use or maintenance of — such premises and all wiring and apparatuses connected thereto or used thereon. Each member shall make available to the Cooperative a suitable site, as determined by the Cooperative, whereon to place the Cooperative's physical facilities for the furnishing and metering of electric service and shall permit the Cooperative's authorized employees, agents and independent contractors to have access thereto safely, and without interference from hostile dogs or any other hostile source, for meter reading, bill collecting and for inspection, maintenance, replacement, relocation, repair or disconnection of such facilities at all reasonable times. As part of the consideration for such service, each member shall be the Cooperative's bailee of such facilities and shall accordingly desist from interfering with, impairing the operation of or causing damage to such facilities, and shall use his or her best efforts to prevent others from so doing. Each member shall also provide such protective devices to his or her premises, apparatuses or meter base as the Cooperative shall from time to time require in order to protect the Cooperative's physical facilities and their operation and to prevent any interference with or damage to such facilities. In the event such facilities are interfered with, impaired in their operation or damaged by the member, or by any other person when the members reasonable care and surveillance should have prevented such, the member shall indemnify the Cooperative and its employees, agents and independent contractors against death, injury, loss or damage resulting therefrom, including but not limited to the Cooperative's cost of repairing, replacing or relocating any such facilities and its loss, if any, of revenues resulting from the failure or defective functioning of its metering equipment. The Cooperative shall, however, in accordance with its applicable service rules and regulations, indemnify the member for any overcharges for service that may result from a malfunctioning of its metering equipment or any error occurring in the Cooperative's billing procedures. In no event shall the responsibility of the Cooperative for furnishing electric service extend beyond the point of delivery.

SECTION 1.09. Member to Grant Easements to Cooperative and to Participate in Required Cooperative Load Management Programs. Each member shall, upon being requested to do so by the Cooperative, execute and deliver to the Cooperative grants of easement or right-of-way over, on and under such lands owned or leased by or mortgaged to the member, and in accordance with such reasonable terms and conditions, as the Cooperative shall require for the furnishing of electric service to the member or other members or for the construction, operation, maintenance or relocation of the Cooperative's electric facilities. Each member shall participate in any required program and comply with related rates and service rules and regulations that may be established by the Cooperative to enhance load management, more efficiently to utilize or conserve electric energy or to conduct load research, shall abide by all of the Cooperative's Bylaws and service rules.

ARTICLE II
MEMBERSHIP SUSPENSION
AND TERMINATION

SECTION 2.01. Suspension; Reinstatement. Upon a member's failure, after the expiration of the initial time limit prescribed either in a specific notice to the member or in the Cooperative's generally publicized applicable rules and regulations, to pay any amounts due the Cooperative or to cease any other non-compliance with his or her membership obligations, a person's membership shall automatically be suspended; and, during such suspension, that person shall not be entitled to receive electric service from the Cooperative or to cast a vote at any meeting of the members. Payment of all amounts due the Cooperative, including any additional charges required for such reinstatement, and/or cessation of any other noncompliance with his or her membership obligations within the final time limit provided in such notice or rules and regulations shall automatically reinstate the membership, in which event the member shall thereafter be entitled to receive electric service from the Cooperative and to vote at any meeting of the members.

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

SECTION 2.03. Termination by Withdrawal or Resignation. A member may withdraw from membership upon such generally applicable conditions as the Board of Directors shall prescribe and upon either (a) ceasing to own or directly occupy or use all premises being furnished electric service pursuant to his or her membership; (b) with the approval of the Board of Directors, resigning his or her membership in favor of a new applicant who owns or directly occupies or uses all premises being furnished electric service pursuant to his or her membership; or (c) except when the Board of Directors specifically waives such conditions, abandoning totally and permanently the use of central station electric service on such premises.

SECTION 2.04. Termination by Death or Cessation of Existence; Continuation of Membership in Remaining or New Partners. Except as provided in Section 2.06, the death of a natural person who is a member shall automatically terminate his or her membership. The cessation of legal existence of any other type of member shall automatically terminate such membership; PROVIDED, that upon the dissolution for any reason of a partnership, or upon the death, withdrawal or addition of any individual partner, such membership shall continue to be held by such remaining and/or new partner or partners as continue to own or directly to occupy or use the premises being furnished electric service pursuant to such membership in the same manner and to the same effect as though such membership had never been held by different partners; PROVIDED FURTHER, that neither a withdrawing partner nor his or her estate shall be released from any debts then due the Cooperative.

SECTION 2.05. Effect of Termination. Upon the termination in any manner of a natural person's membership, that person or the estate of that person, as the case may be, shall be entitled to refund of his or her membership fee (and to his or her service security deposit, if any, theretofore paid the Cooperative), less any amounts due the Cooperative; but neither that person nor the estate of that person, as the case may be, shall be released from any debts or other obligations then remaining due the Cooperative. Notwithstanding suspension or expulsion of a member, as provided for in Section 2.01 and 2.02, unless the Board of Directors shall expressly so elect, such suspension or expulsion shall not constitute such release of such person from his or her membership obligations as to entitle that person to purchase from

any other person any central station electric power and energy for use at the premises to which such service had theretofore been furnished by the Cooperative pursuant to such membership.

SECTION 2.06. Effect of Death, Legal Separation or Divorce upon a Joint Membership. Upon the death of either spouse of a joint membership, such membership shall thereafter be held solely by the survivor in the same manner and to the same effect as though such membership had never been joint; PROVIDED, that the estate of the deceased spouse shall not be released from any debts due the Cooperative. Upon the legal separation or divorce of the holders of a joint membership, such membership shall continue to be held solely by the one who continues directly to occupy or use the premises covered by such membership in the same manner and to the same effect as though such membership had never been joint; PROVIDED, that the other spouse shall not be released from any debts due the Cooperative.

SECTION 2.07. Board Acknowledgment of Membership Termination; Acceptance of Members Retroactively. Upon the termination of a person's membership for any reason, the Board of Directors, as soon as practicable after such termination is made known to it, by appropriate resolution shall acknowledge formally such termination, effective as of the date on which the Cooperative ceased furnishing electric service to such person. Upon discovery that the Cooperative has been furnishing electric service to any person other than a member, it shall cease furnishing such service unless such person applies for, and the Board of Directors approves, membership retroactively to the date on which such person first began receiving such service, in which event the Cooperative, to the extent practicable, shall correct its membership and all related records accordingly.

ARTICLE III MEETINGS OF MEMBERS

SECTION 3.01. Annual Meeting. The annual meeting of the members shall be held on the second Tuesday after the first Monday in November of each year, at such place in the Counties as listed in Section 3.07, Articles III, 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. Failure to hold the annual meeting at the designated time shall not work a forfeiture or dissolution of the Cooperative.

SECTION 3.02. 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 three directors and by the President, or by ten percent (10%) or more of all members, and it shall thereupon be the duty of the Secretary to cause notice of such meeting to be given as hereinafter provided. Special meeting of the members may be held at any place, permitted by Section 3.01, above, specified in the notice of the special meeting.

SECTION 3.03. Notice of Members Meeting. 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 mailed not less than ten days or more than thirty days before the date of the meeting by or at the direction of the Secretary, or upon a default in duty by the Secretary, by the person calling the meeting to each member. Such notice shall be deemed to be mailed when deposited in the United States mail, addressed to the member at his or her address as it appears on the records of the Cooperative, with postage thereon prepaid. 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.

SECTION 3.04. Quorum. So long as the total number of members shall exceed One Thousand (1000), at least ten (10%) percent of the Members, present in person or represented by a cast ballot or proxy, shall constitute a quorum for the transaction of the business at all meetings of the Members, if less than a quorum is present at any meeting, a majority of those present in person or represented by proxy may adjourn the meeting from time to time without notice.

SECTION 3.05. Elections by Mail and Voting. An election by mail shall be conducted for matters requiring a vote by the members. Matters shall be submitted to all members entitled to vote by a ballot that shall be mailed with the notice provided for in Section 3.03. The ballot shall clearly state the matters on which the members may vote, provide for the election of Directors as required, and shall state the time and date by which the Cooperative must receive the completed ballot by mail. Each member entitled to vote shall be entitled to cast only one vote upon each matter, regardless of the number of memberships held. All questions shall be decided by a vote of a majority of the members voting thereon by ballot, except as otherwise provided by law, the articles of incorporation or these Bylaws. The Elections Committee provided for in Section 4.04 or an independent organization authorized by the Elections Committee shall verify that a ballot cast is an authorized ballot that complies with these bylaws and record the votes on matters contained on the ballot.

SECTION 3.06 . Proxies. A member entitled to vote may choose to grant a proxy to the Board of Directors and allow the Board of Directors to vote on the member's behalf on matters submitted to the members by ballot. A valid proxy shall be in writing, signed by the member entitled to vote, shall state the meeting of the members at which it shall be voted, and deposited in the United States mail in sufficient time to be received by the Election Committee or the Election Committee's designated agent not later than 10:00 A.M. on the day preceding the meeting of the members or by the time and date stated on the ballot as provided in Section 3.05. All proxies must be filed for certification with the Elections Committee prior to the start of a meeting of the members to be valid at such meeting. The Elections Committee or an independent organization authorized by the Elections Committee shall verify that a proxy complies with these bylaws and shall inform the Secretary of the Board of Directors the number of votes authorized to be cast by the Board on matters submitted to the members by ballot as provided in Section 3.05. The Board of Directors shall cast the number of votes authorized by the proxies at a meeting of the members.

SECTION 3.07. Director Districts. The territory served or to be served by the Cooperative shall be divided into five districts. Districts number 1 through 5 shall be represented as follows:

District No. 1 Angelina, Polk and Trinity Counties
Four (4) Directors

District No. 2 San Jacinto County
Two (2) Directors

District No. 3 Jasper and Tyler Counties
One (1) Director

District No. 4 Hardin and Liberty Counties
Two (2) Directors

District No. 5 Montgomery and Walker Counties
Two (2) Directors

Not less than forty-five days before any meeting of the members at which directors are to be elected, the Board of Directors shall review the composition of the several districts and if it should be found that inequalities in representation have developed which can be corrected by a redelineation, addition and/or reduction of the districts, the Board of Directors, by resolution, shall reconstitute the districts to eliminate such inequalities.

SECTION 3.08. Order Of Business. Except as otherwise provided in these Bylaws, before or at an annual or special meeting of the members, the Board of Directors: (1) shall determine the agenda, program, or order of business for the meeting of the members; and (2) may limit attendance at the meeting to members.

Except as otherwise provided by the Board of Directors before or at a meeting of the members, the President: (1) shall preside at the meeting of the members; (2) may remove a person from the meeting of the members for unruly, disruptive, or similar behavior; (3) may exercise power reasonably necessary for efficiently and effectively conducting the meeting of the members; and (4) contrary to Section 3.05, the President may call for votes on general housekeeping or procedural matters, such as the approval of minutes, motions to adjourn, etc. as may be required to conduct the meeting of the members.

Except as otherwise provided by the Board of Directors before or at a meeting of the members, members attending the meeting of the members may only consider, vote, or act upon a matter described on the ballot provided for under Section 3.05 that was mailed with the notice per Section 3.03.

ARTICLE IV DIRECTORS

SECTION 4.01. General Powers. The business and affairs of the Cooperative shall be managed by a board of eleven Directors which shall exercise all of the powers of the Cooperative except such as are by law, the articles of incorporation of these Bylaws conferred upon or reserved to the members.

SECTION 4.02. Election and Tenure of Office. The term of office of a Director shall be three (3) years or until the office to which such Director is elected is declared vacant in accordance with the provisions of these Bylaws with

respect to the resignation or removal of Directors. A person holding the office of Director, unless he or she dies, resigns, or is removed, shall serve until his or her successor has been elected and has been qualified. The election of Directors shall be staggered by year and shall be by District and Place as follows or as modified by subsequent action of the Board of Directors pursuant to Section 3.07:

District	Place	Year Elected
1	1	3
1	2	3
1	3	1
1	4	2
2	1	3
2	2	1
3	1	2
4	1	3
4	2	1
5	1	2
5	2	2

The year 2000 and each third year thereafter shall be an election year 1. The year 2001 and each third year thereafter shall be an election year 2. The year 2002 and each third year thereafter shall be an election year 3.

SECTION 4.03. Qualifications. No person shall be eligible to become or remain a Director of the Cooperative who:

- A. Is not a member of the Cooperative; or
- B. Is a member of the Cooperative whose membership in the Cooperative is then suspended; or
- C. Is not a bona fide resident, for at least one year, in the District for which such person seeks election or was elected and at least thirty (30) years of age. A member is a "bona fide resident" of a particular District if the member's registered voting address for local, state and federal elections is located in that particular District; or
- D. Is in any way employed by or financially interested in an enterprise that is competing with the Cooperative in selling electric power and energy or selling electric power and energy to the Cooperative; or
- E. Is an employee or former employee of the Cooperative; or
- F. Has had a close relative that was an employee or a Director of the Cooperative within the seven (7) years prior to the election at which such member is to be placed on the ballot for the position of Director; or
- G. Is a close relative in the family of an existing Director of the Cooperative; or
- H. Is, or has a close relative who is, a representative, agent, officer, or in any way employed or compensated by a labor organization that is the recognized bargaining representative for any unit of the Cooperative's employees or by an affiliate of any such labor organization; or
- I. Has been convicted of a felony or a crime of moral turpitude in this State or any other State.

If a majority vote of the Directors present at a Board of Directors' meeting at which a quorum is present determines that a Director is holding office in violation of any of the foregoing provisions, that Director shall be deemed removed from office effective immediately. Written notice of the action of the Board of Directors shall be given by the Secretary of the Board of Directors to the former Director involved. Such notice shall be sent by first-class mail addressed to the billing address for such former Director shown in the records of the Cooperative.

SECTION 4.04. Nomination and Election of Directors. Nominations for Directors shall be made by Districts as hereinabove defined or as modified by subsequent action of the Board of Directors pursuant to Section 3.07 and shall be made in accordance with the procedure hereinafter described. The Election of Directors shall be conducted by mail as provided in Section 3.05 and in accordance with procedures hereinafter described.

Nominees for the Place, as provided for in Section 4.02 of a Director whose term of office is to expire are to be selected from the members who are bona fide residents of the same District.

It shall be the duty of the Board of Directors to appoint an Elections Committee at its regular January board meeting. This Elections Committee shall be made up of one member from each District defined in Section 3.07 that shall serve a one year term. Election Committee members may not be an existing, or a close relative of an existing: (1) Director; (2) known Director candidate; or (3) Cooperative employee. The Board of Directors may replace a member of the Elections Committee if a vacancy occurs anytime during the calendar year but at all times each District defined in Section 3.07 shall be represented. The Elections Committee:

A. Shall nominate at least one candidate for each Place provided for in Section 4.02 which an existing Director's term is expiring at that year's annual meeting of the members.

B. Shall have the authority to arrange for procedures that will ensure that the Election of Directors complies with these Bylaws;

C. Shall certify or arrange for the certification that a potential nominee is not disqualified from serving as a Director pursuant to Section 4.03 or these Bylaws and that the potential nominee's nomination complies with this Section;

D. Shall prepare a ballot or arrange for a ballot to be prepared that contains the matters requiring a vote of the Members;

E. Shall prepare a ballot or arrange for a ballot to be prepared that reflects the names of those nominees certified for the Election of Directors; and

F. Shall perform other duties related to Cooperative elections as may be required by the Board of Directors.

Any 100 or more of the members from a District acting together may make nominations by petition received at the principal office of the Cooperative in Livingston, Texas, not later than 5:00 o'clock p.m. on the first Friday in August. The petition shall state which Place provided for in Section 4.02 the potential nominee is seeking in the Election of Directors. A nomination petition will only be valid if the signatures were obtained following January 1st of the year of that election. On receipt of any such petition, the Elections Committee shall verify or arrange for the verification that a petition is valid and complies with this Section.

The Elections Committee shall prepare and arrange for the posting at the principal office of the Cooperative on or before the first Tuesday in October, the ballot containing the names of the nominees to be considered in the Election of Directors. The ballot shall be mailed with the notice provided for in Section 3.03, shall reflect the manner in which the nominee was nominated and may reflect that a nominee is an existing Director.

A nominee receiving the most votes for a particular Place shall be deemed elected. There shall be no run-off for the office of Director and no nominations shall be heard at any meeting of the members.

SECTION 4.05. Vacancy in Director Position Caused by Removal of Director 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 percent (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 thirty 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 of the charges; and the person or persons bringing the charges against such Director shall have the same opportunity. The question of the removal of such Director shall be considered and voted upon at the meeting of the members contrary to Section 3.05 and any vacancy by such removal may be filled as set out in Section 4.07, following.

SECTION 4.06. Vacancy in Director Position Caused by Death or Resignation. The death of any Director immediately shall create a vacancy in the Director position theretofore held by such Director. In like manner, the resignation of any Director immediately shall create a vacancy in the Director position theretofore held by such Director. A Director may resign, and shall be deemed to have resigned, by taking either of the following actions:

A. Delivering to the Secretary-Treasurer a document, signed by the Director, stating that he or she resigns from the Board of Directors of the Corporation or, if the resigning Director is the Secretary-Treasurer, delivering such document to the President or to the Assistant Secretary-Treasurer.

B. In any period of twelve (12) consecutive months, on four (4) or more occasions being absent for the entirety of a regular meeting of the Board of Directors without his or her excuse for such absence being accepted by the Board of Directors and such acceptance being noted in the minutes of that Board of Directors meeting.

SECTION 4.07. Filling of Vacancies. The occurrence of any vacancy caused by the removal, death, or resignation of a Director shall be noted in the minutes of the Board of Directors' meeting at which it occurs or, if it occurs between meetings of the Board of Directors, the minutes of the next succeeding meeting. A vacancy occurring in a Director position shall be filled for the unexpired portion of the term by the affirmative vote of a majority of the remaining Directors. The successor Director must be qualified under Section 4.03 to serve as a Director and must be a bona fide resident in the District for which the Director to whose office he or she succeeds was elected or appointed.

SECTION 4.08. Compensation. Directors (including both Active Directors and Retired Directors) shall receive such compensation for their services as Directors (whether as an Active Director or a Retired Director, as the case may be) as may be fixed from time to time by resolution of the Board of Directors. In addition thereto, Directors (including both Active Directors and Retired Directors) shall be furnished such insurance coverage as the Board of Directors from time to time may fix by resolution. No Active Director or Retired Director shall receive compensation for serving the Cooperative in any other capacity, nor shall a close relative of an Active Director or a Retired Director receive compensation for serving the Cooperative unless the payment and amount of such compensation shall be specifically authorized by a vote of the Board of Directors. If any active member of the Board of Directors, without excuse granted by the Board of Directors and entered on the minutes of the Board of Directors' meetings, shall miss two (2) regular scheduled Board of Directors' meetings during any period of twelve (12) consecutive calendar months, such Director will not receive any compensation for any meetings missed thereafter until twelve (12) calendar months have passed in which such Director has not so missed any regular scheduled Board of Directors' meeting.

SECTION 4.09. Indemnification for Expenses and Liability. Every current and former Director and every current and former officer of the Cooperative shall be indemnified by the Cooperative against all judgments, penalties, fines, liabilities, amounts paid in settlement, and reasonable expenses, including counsel fees actually incurred by or imposed upon him or her in connection with any proceeding to which he or she was, is or is threatened to be made party, or in which he or she may become involved, by reason, in whole or in part, of being or having been a Director or officer, to the maximum extent consistent with the provisions of Tex. Code § 161.078 as amended from time to time; provided that, in the event of settlement, the indemnification herein shall apply only when the Board of Directors approves such settlement and reimbursement as being for the best interest of the Cooperative. The foregoing right and indemnification shall be in addition to and not exclusive of all other rights to which such Director or officer may be entitled. The Cooperative may purchase insurance to cover such indemnification.

SECTION 4.10. Retired Directors. An Active Director may choose to resign and vacate his office as Director and serve as a Retired Director, subject to the following qualifications and restrictions:

- A. An Active Director who has reached the age of sixty-five (65) and has completed twenty (20) or more years of continuous service on the Board of Directors of Sam Houston Electric Cooperative, Inc. may elect to resign and retire as an Active Director and request to serve as a Retired Director. An Active Director who does not meet these qualification requirements may be approved by the Board to serve as a Retired Director under the following circumstances:
 - a. An Active Director may be allowed to serve as a Retired Director in the event that health or other reasons no longer allow him/her to continue to fulfill the duties of an Active Director.
 - b. In the event that the Active Director's position is open for an election and the election is contested with one or more candidates seeking the Director's office, the Director may choose to resign and vacate said position prior to the election and request to serve as a Retired Director. If the Director chooses to run for re-election, and thereafter loses the election, the Director is no longer eligible to serve as a Retired Director.
 - c. An Active Director who has reached the age of sixty-five (65) and has completed ten (10) or more years but less than twenty (20) years of continuous service on the Board of Directors of Sam Houston Electric Cooperative, Inc. may elect to resign and retire as an Active Director and request to serve as a Retired Director to continue to receive a fractional portion of an Active Director's compensation. That fractional portion being determined as the number of years of service performed by the retiring Director, rounded to the nearest year, divided by 20 years, as demonstrated by the following formula:

$$A = B \times (C/20 \text{ Years})$$

Where:

A = Retired Director's Compensation

B = Active Director's Compensation

C = Total Years of Service Rounded to the Nearest Year – 10-Year Minimum, 20-Year Maximum.

- B. At the time an Active Director elects to resign and requests to serve as a Retired Director, the Director must be an Active Director and must at that time satisfy the qualifications set forth in Section 4.03.
- C. A decision by an Active Director to retire and serve as a Retired Director will be evidenced by Board approval.
- D. An Active Director may be allowed to serve as a Retired Director and not be required to live within the Cooperative's service territory as a member.

Section 4.11. Close Relative Defined. As used in these Bylaws, the term "close relative" means a person who is within the second (2nd) degree of consanguinity, or the second (2nd) degree of affinity, of (a) an employee of the Cooperative, (b) the lawful spouse of an employee of the Cooperative, or (c) a member of the Board of Directors of the Cooperative.

- A. Determination of Consanguinity:
 - a. Two (2) individuals are related to each other by consanguinity if:
 - 1. one (1) is a descendant of the other; or
 - 2. they share a common ancestor.
 - b. An adopted child is considered to be a child of the adoptive parent for this purpose.
 - c. As used in (A)(i)(1) above, a descendant is a person who follows in lineage, such as a child or grandchild, but shall not include a collateral relative (meaning a relative who is not in the direct line of inheritance, such as a cousin).
- B. Computation of Degree of Consanguinity:
 - a. The degree of relationship by consanguinity between an individual and the individual's descendant is determined by the number of generations that separate them. A parent and child are related in the first degree, a grandparent and grandchild in the second degree, a great-grandparent and great-grandchild in the third degree and so on.
 - b. If an individual and the individual's relative are related by consanguinity, but neither is descended from the other, the degree of relationship is determined by adding:
 - 1. the number of generations between the individual and the nearest common ancestor of the individual and the individual's relative; and
 - 2. the number of generations between the relative and the nearest common ancestor.
 - c. An individual's relatives within the third degree by consanguinity are the individual's:
 - 1. parent or child (relatives in the first degree);
 - 2. brother, sister, grandparent, or grandchild (relatives in the second degree); and
 - 3. great-grandparent, great-grandchild, aunt who is a sister of a parent of the individual, uncle who is a brother of a parent of the individual, nephew who is a child of a brother or sister of the individual, or niece who is a child of a brother or sister of the individual (relatives in the third degree).
- C. Determination of Affinity:
 - a. Two (2) individuals are related to each other by affinity if:
 - 1. they are recognized by the laws of the State of Texas as being married to each other; or
 - 2. the spouse of one (1) of the individuals is related by consanguinity to the other individual.

- b. The ending of a marriage by divorce or the death of a spouse ends relationships by affinity created by that marriage unless a child of that marriage is living, in which case the marriage is considered to continue as long as a child of that marriage lives.
- c. Subsection (b) applies to a member of the Board of Directors of the Cooperative only until the youngest child of the marriage reaches the age of twenty-one (21) years.

D. Computation of Degree of Affinity:

- a. A husband and wife are related to each other in the first degree by affinity. For other relationships by affinity, the degree of relationship is the same as the degree of the underlying relationship by consanguinity. For example: if two (2) individuals are related to each other in the second degree by consanguinity, the spouse of one (1) of the individuals is related to the other individual in the second degree by affinity.
- b. An individual's relatives within the third degree by affinity are:
 - 1. anyone related by consanguinity to the individual's spouse in one (1) of the ways named in (B)(c) above; and
 - 2. the spouse of anyone related to the individual by consanguinity in one (1) of the ways named in (B)(c) above.

SECTION 4.12. Committees. The Board of Directors may adopt a resolution establishing one or more committees delegating specific authority to a committee, and appointing or removing members of a committee. A committee may include persons who are not Directors. If the Board of Directors delegates any of its authority to a committee, the majority of the committee shall consist of Directors. The establishment of a committee or the delegation of authority to it shall not relieve the Board of Directors, or individual Directors, of any responsibility imposed by the Articles of Incorporation or these Bylaws or otherwise imposed by law.

ARTICLE V MEETINGS OF DIRECTORS

SECTION 5.01. 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 the offices of the Cooperative in Livingston, Polk County, Texas, or such other place in Polk County 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.

SECTION 5.02. Special Meetings. Special meetings of the Board of Directors may be called by the President or by any three Directors, and it shall thereupon be the duty of the Secretary to cause notice of such meetings 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.

SECTION 5.03. 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 five days previous thereto either personally or by mail by or at the direction of the Secretary, or upon a default in duty by the Secretary, by the President or 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 in the records of the Cooperative, with postage thereon prepaid.

SECTION 5.04. Quorum. A majority of the Board of Directors shall constitute a quorum, provided that 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 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 VI
OFFICERS

SECTION 6.01. Number. The Officers of the Cooperative shall be a President, First Vice-President, Second Vice-President, Secretary-Treasurer and Assistant Secretary-Treasurer and such other officers that may be determined by the Board of Directors from time to time.

SECTION 6.02. Election and Term of Office. The officers shall be elected annually by and from the Board of Directors at the first meeting of the Board of Directors held 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 he or she dies, resigns, or is removed or his or her 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.

SECTION 6.03. Removal of Officers and Agents by Directors. 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 interests of the Cooperative will be served thereby. In addition, any member of the Cooperative may bring charges against an officer, and by filing with the Secretary such charges in writing together with a petition signed by ten percent (10%) of the members may request the removal of such officer. The officer against whom such charges have been brought shall be informed in writing of the charge at least ten days prior to the board meeting 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 of the charges; and the person or persons bringing the charges against him or her shall have the same opportunity. In the event the Board of Directors does not remove such officer and the member bringing charges makes a request in writing, the questions of his or her removal shall be considered and voted upon at the next meeting of the members.

SECTION 6.04. President. The President shall:

A. Be the principal executive officer of the Cooperative and, unless otherwise determined by the Board of Directors, shall preside at all meetings of the Board of Directors;

B. Sign, with the Secretary, certificates of memberships, the issue of which shall have been authorized by the Board of Directors or the members, and may sign any deeds, mortgages, deeds of trusts, notes, contracts, or other instruments authorized by the Board of Directors to be executed, except in cases in which the signing and execution thereof shall be expressly delegated by the Board of Directors or by 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.

SECTION 6.05-1. First Vice-President. In the absence of the President, or in the event of his or her inability or refusal to act, the First 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 First Vice-President shall also perform such other duties as from time to time may be assigned to him or her by the Board of Directors.

SECTION 6.05-2. Second Vice-President. In the absence of the President and the First Vice-President, or in the event of their inability or refusal to act, the Second 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 Second Vice-President shall also perform such other duties as from time to time may be assigned to him or her by the Board of Directors.

SECTION 6.06. Secretary-Treasurer. The Secretary-Treasurer shall:

A. Keep the minutes of the meetings of the members and of the Board of Directors in one or more books provided for that purpose;

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 certificates of membership prior to the issue thereof and to all documents, the execution of which on behalf of the Cooperative under its seal is duly authorized in accordance with the provision of these Bylaws;

D. Keep a register of the names and post office addresses of all members;

E. Sign, with the President, certificates of membership, the issue of which shall have been authorized by the Board of Directors or the members;

F. Have general charge of the books of the Cooperative;

G. 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 at the expense of the Cooperative, forward a copy of the Bylaws and all amendments thereto to each member;

H. Have charge and custody of and be responsible for all funds and securities of the Cooperative;

I. Be responsible for the receipt of and the issuance of receipts for all monies due and payable to the Cooperative and for the deposit of all such monies in the name of the Cooperative in such bank or banks as shall be selected in accordance with the provisions of these Bylaws; and

J. In general perform all the duties incident to the office of the Secretary-Treasurer and such other duties as from time to time may be assigned to him or her by the Board of Directors.

SECTION 6.07. Assistant Secretary-Treasurer. In the absence of the Secretary-Treasurer, or in the event of his or her inability or refusal to act, the Assistant Secretary-Treasurer shall perform the duties of the Secretary-Treasurer and when so acting, shall have all the powers of and be subject to all the restrictions upon the Secretary-Treasurer.

SECTION 6.08. Delegation of Secretary-Treasurer's Responsibilities. Notwithstanding the duties, responsibilities and authorities of the Secretary-Treasurer and of the Assistant Secretary-Treasurer herein before provided in Section 6.06 and 6.07, the Board of Directors by resolution may, except as otherwise limited by law, delegate, wholly or in part, the responsibility and authority for, and the regular or routine administration of, one or more of each such officers duties to one or more agents, other officers or employees of the Cooperative who are not Directors. To the extent that the Board does so delegate with respect to any such officer, that officer as such shall be released from such duties, responsibilities and authorities.

SECTION 6.09. General Manager. The Board of Directors may appoint a General Manager who shall not be required to be a member of the Cooperative. The General Manager shall be an officer of the Cooperative for the purpose of managing the day to day operations of the Cooperative, but shall not be a member of the Board of Directors. The General Manager shall perform such duties and shall exercise such authority as the Board of Directors may from time to time vest in him or her. The Board of Directors may confer on said General Manager any title it deems appropriate.

SECTION 6.10. Bond of Officers. The Secretary-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 surety as the Board of Directors in its discretion may require. The Board of Directors 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. The cost of all such bond shall be borne by the Cooperative.

SECTION 6.11. Officer Compensation. The compensation, if any, of any officer, agent or employee who is also a Director or close relative of a Director shall be determined as provided in Section 4.08 of these Bylaws, and the powers, duties and compensation of any other officers, agents and employees shall be fixed or a plan therefore approved by the Board of Directors.

SECTION 6.12. 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 VII NON-PROFIT OPERATION

SECTION 7.01. Interest or Dividends on Capital Prohibited. The Cooperative shall at all times be operated on a cooperative, non-profit basis for the mutual benefits of its patrons. No interest or dividends shall be paid or payable by the Cooperative on any capital furnished by its patrons.

SECTION 7.02. Patronage Capital in Connection with Furnishing Electric Energy. In the furnishing of electric energy the Cooperative's operations shall be so conducted that all patrons, members and non-members alike, 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, members

and non-members alike, for all amounts received and receivable from the furnishing of electric energy in excess of operating costs and expenses properly chargeable against the furnishing of electric energy. All such amounts in excess of operating costs and expenses at the moment of receipt by the Cooperative are received with the understanding that they are furnished by the patrons, members and non-members alike, 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 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 or her account. PROVIDED, that individual notices of such amounts furnished by each patron shall not be required if the Cooperative notifies all patrons of the aggregate amount of such excess and provides a clear explanation of how each patron may compute and determine for himself or herself the specific amount of capital so credited to him or her. 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 Cooperative corresponding amounts for capital.

In the event of dissolution or liquidation of the Cooperative, after all other 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 of Directors shall determine that the financial condition of the Cooperative will not be impaired thereby, the capital then credited to patrons accounts may be retired in full or in part. Any such retirements of capital shall be made as directed by the Board of Directors in any manner it chooses so as to return such capital to the patrons of the Cooperative on a pro rata basis according to the amount of business done with each during the period when such capital was accumulated; PROVIDED, however, that the Cooperative, before retiring any capital credited to any patron's account, shall deduct therefrom any amount owing by such patron to the Cooperative and, PROVIDED, however, that the Board of Directors shall have the power to adopt rules providing for the separate retirement of that portion ("power supply or other services or supply portion") of capital credit to the accounts of patrons which corresponds to capital credited to the account of the Cooperative by an organization furnishing power supply or any other service or supply to the Cooperative. Such rules shall (a) establish a method for determining the portion of such capital credited to each patron for each applicable fiscal year, (b) provide for separate identification on the Cooperative's books of such portions of capital credits to the Cooperative's patrons, (c) provide for appropriate notifications to patrons with respect to such portions of capital credited to their accounts and (d) preclude a general retirement of such portions of capital credited to patrons for any fiscal year prior to the general retirement of other capital credited to patrons for the same year or of any capital credited to patrons for any prior fiscal year. In no event, however, may any such capital be retired unless the requirements of the Cooperative's mortgage indentures in effect at the time of such retirement are satisfied. These indentures' requirements now include that, unless the prior approval of the Mortgage Lenders shall be secured in writing, if, after the proposed retirement, the capital of the Cooperative shall not equal at least forty percent (40%) of the total assets of the Cooperative, the amount of capital to be retired shall not exceed twenty-five percent (25%) of the capital credited to the Cooperative's patrons accounts during the preceding fiscal year.

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 patrons premises served by the Cooperative unless the Board of Directors, acting under policies of general application, shall determine otherwise.

Notwithstanding any other provision of these Bylaws, the Board of Directors, at its discretion, shall have the power at any time upon the death of any patron, if the legal representative of his or her 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, to retire capital credited to any such patron immediately upon terms and conditions as the Board of Directors, acting under policies of general application and the legal representatives of such patrons estate shall agree upon; PROVIDED, however, that the Cooperative, before retiring any capital credited to any patrons account, shall deduct therefrom any amount owing by such patron to the Cooperative and determine that the financial condition of the Cooperative will not be impaired by such retirement.

The patrons of the Cooperative, by dealing with the Cooperative, acknowledge that the terms and provisions of the Articles of Incorporation and Bylaws, as they may be in effect from time to time, shall constitute and be a contract between the Cooperative and each patron, and both the Cooperative and each patron 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.

SECTION 7.03. Allocated Capital Credits. All persons to whom capital credits have been allocated shall keep the Cooperative informed of their current mailing addresses in order that the Cooperative may retire or refund capital credits, membership fees, deposits and any other amounts to such persons in accordance with the Bylaws.

SECTION 7.04. Patronage Refunds in Connection with Furnishing Other Services. In the event that the Cooperative should engage in the business of furnishing goods or services other than electrical energy, all amounts received and receivable therefrom which are in excess of costs and expenses properly chargeable against the furnishing of such goods or services shall insofar as permitted by law, be prorated annually on a patronage basis and returned to those patrons, members and non-members alike from whom such amounts were obtained; PROVIDED, however, that the Cooperative before returning any such amount to any patron, shall deduct therefrom any amount owing by such patron to the Cooperative.

ARTICLE VIII DISPOSITION OF PROPERTY

The Cooperative may not sell or otherwise dispose of (hereinafter collectively "alienate") 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 (1) year exceed the then-current fair market value ten per centum (10%) of the then-current fair market value of all property of the Corporation and all its property, tangible and intangible;

B. Tangible and intangible property used and useful in providing electric service to points of delivery or areas to which the Corporation is entitled by law or regulation to provide retail electric service; provided, however, that the then-current fair market value of such property that the Corporation may alienate in any one (1) year shall not exceed in value three per centum (3%) of the then-current fair market value of the Corporation and all its property, tangible and intangible or render the Corporation unable to serve in excess of three per centum (3%) of those persons who were its members at the beginning of such year;

C. Services of kinds, including electric energy, and

D. Personal property acquired for resale; unless such alienation has been authorized at a meeting of the Members by the affirmative vote, in person or by proxy, of at least two-thirds (2/3) of all of the Members of the Corporation and the notice of the meeting at which such vote is taken has advised the Members thereof, generally describing the property proposed to be alienated.

ARTICLE IX 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 X FINANCIAL TRANSACTIONS

SECTION 10.01. 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.

SECTION 10.02. 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, employees of the Cooperative and in such manner as shall from time to time be determined by resolution of the Board of Directors.

SECTION 10.03. 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.

SECTION 10.04. Change in Rates. No rate charged by the Cooperative for electric power, energy, or service shall be changed unless and until the Cooperative has complied with all prerequisites for making such change that are

established by law, by rule, regulation, or order of any regulatory authority having jurisdiction over such rate, or by any mortgage or security agreement in effect at the time.

SECTION 10.05. Fiscal Year. The fiscal year of the Cooperative shall begin on the first day of January of each year and shall end on the thirty-first day of December of the same year.

ARTICLE XI MISCELLANEOUS

SECTION 11.01. Observation of Mortgage and Security Agreement Terms and Conditions. The Board of Directors shall maintain familiarity with every mortgage and security agreement affecting the Cooperative which is in effect from time to time. The Board of Directors shall exercise its best efforts to cause the Cooperative to perform all of the covenants, agreements, and provisions thereof and to not violate any of the prohibitions thereof.

SECTION 11.02. Waiver of Notice. Any member or Director may waive in writing any notice of a meeting required by these Bylaws. The attendance of member or Director at any meeting shall constitute a waiver of notice of such meeting by such member or Director, except in a case a member or Director shall attend a meeting for the purpose of objecting to the transaction of any business on the ground that the meeting has not been lawfully called or convened.

SECTION 11.03. 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.

SECTION 11.04. Accounting System and Reports. The Board of Directors shall cause to be established and maintained a complete accounting system for the Cooperative. This accounting system at all times shall comply with all requirements of law, all requirements of the rules, regulations, and orders of each regulatory authority having jurisdiction thereover, and all requirements of every mortgage and security agreement affecting the Cooperative which then is in effect.

After the close of each fiscal year, the Board of Directors shall cause to be made by a Certified Public Accountant an audit of the accounts, books and financial condition of the Cooperative as of the end of such fiscal year. This audit shall be certified as having been made in accordance with generally accepted auditing standards. The substance of the report of the result of such audit shall be given to the members not later than at the next following annual meeting.

Section 11.05. Legal Authorities Governing Construction of Bylaws. These Bylaws shall be construed in accordance with the laws of the State of Texas. All references in these 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.

Section 11.06. Legal Construction. If any Bylaw provision is held to be invalid, illegal, or unenforceable in any respect, that 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.

Section 11.07. Headings. The headings in these Bylaws are used for convenience and shall not be considered in construing the terms of these Bylaws.

ARTICLE XII MERGER AND CONSOLIDATION

The Corporation may merge or consolidate with one or more entities that are not organized pursuant to the Texas Electric Cooperative Corporation Act only if:

A. An agreement for such a consolidation or merger is approved by the affirmative vote, in person or by proxy, of two-thirds (2/3) of all of the members of the Corporation; and

B. The notice of the meeting at which such vote is taken has advised the Members of the vote to be taken on consolidation or merger, describing the proposed consolidation or merger, including the relationship of the members to the new or surviving entity, has stated the current appraised fair market value of the corporation and of each other entity involved in the proposed consolidation or merger, and has had attached to it the proposed agreement for consolidation or merger.

ARTICLE XIII
AMENDMENTS

These Bylaws may be altered, amended or repealed by not less than the affirmative vote of two-thirds (2/3) of all the Board of Directors at any regular or special meeting, except where these Bylaws or the Articles of Incorporation reserve to the Members the right to so alter, amend or repeal them.