

North Plains Electric Cooperative, Inc.

Perryton, Texas

BOARD POLICY NO. 41

Conflict of Interest

PURPOSE:

This Board Policy No. 41 sets forth the policy of North Plains Electric Cooperative, Inc. (“the Cooperative”) related to the issue of disclosure of any potential conflict of interest.

POLICY:

Each Director, Officer, and Key Employee of North Plains Electric Cooperative, Inc. must comply with this policy.

1. **Definitions.** As used in this policy, and unless the context requires otherwise:
 - A. Board means the North Plains Electric Cooperative, Inc. Board of Directors.
 - B. Business Opportunity means an opportunity to engage in a business activity, other than an opportunity offered to all similarly situated Cooperative members, of which:
 - (1) An Official becomes aware in connection with performing Official functions; under circumstances reasonably indicating that the opportunity was expected to be offered to the Cooperative; or through using cooperative information or property if the Official should reasonably expect the opportunity to interest the Cooperative; or
 - (2) An Official becomes aware and knows is closely related to a business in which the Cooperative is engaged or expects to engage.
 - C. Conflicting Interest Transaction means a transaction or proposed transaction by the Cooperative, other than the payment of Official compensation or provision of Official benefits, and other than a transaction offered to all similarly situated Cooperative members:
 - (1) To which an Official is a party; or
 - (2) For which, at the time the Board considers the transaction, or at the time the Cooperative becomes legally obligated regarding the

transaction, an Official had knowledge and a Material Financial Interest known to the Official; or an Official knew that a Related Person was a party or had a Material Financial Interest.

D. Control or Controlled means:

- (1) Having the direct or indirect power, through ownership of shares or interests, by contract, or otherwise, to elect or remove a majority of an entity's governing body;
- (2) Being subject to a majority of the risk of loss from an entity's activities; or
- (3) Being entitled to receive a majority of an entity's residual returns.

E. Cooperative means North Plains Electric Cooperative, Inc.

F. Director means a member of the Board.

G. Disinterested Director means a Director who, at the time the Board acts regarding income, employment, competition, a Conflicting Interest Transaction, or a Business Opportunity:

- (1) Is not associated with the income, employment, or compensation; is not engaged in the Transaction; and is not taking advantage of the Opportunity; and
- (2) Does not have a relationship with an Official associated with the income, employment, or compensation; engaged in the Transaction; or taking advantage of the Opportunity, which relationship would reasonably be expected to impair the objectivity of the Director's judgment regarding the income, employment, competition, Transaction, or Opportunity.

H. Key Employee means a Cooperative employee, other than a Director or Officer, who:

- (1) Receives more than \$150,000 in compensation reported to the Internal Revenue Service on Form W-2;
- (2) Has responsibilities, powers, or influence over the Cooperative similar to a Director or Officer; manages a segment or activity of the Cooperative representing ten percent or more of the Cooperative's activities, assets, income, or expenses; or has or shares authority to control or determine ten percent or more of the Cooperative's capital expenditures, operating budget, or employee compensation; and

- (3) Is one of the twenty employees with the highest compensation reported to the Internal Revenue Service on W-2.
- I. Manager means the individual with ultimate responsibility for implementing the Board's decisions or supervising the Cooperative's management, administration, or operation, regardless of job title.
- J. Material Financial Interest means a financial interest in a transaction reasonably expected to impair the objectivity of an Official's judgment regarding the transaction.
- K. Officer means an individual:
- (1) Appointed by the Board, or by another Officer authorized by the Board or by the Cooperative's articles of incorporation or bylaws; and
 - (2) Serving as a chief executive, operating, financial, legal, or accounting officer; being in charge of a principal business unit; or performing a major policymaking function.
- L. Official means a Director, Officer, or Key Employee.
- M. President means a Director who is President of the Cooperative or is Chair of the Board.
- N. Policy means this North Plains Electric Cooperative, Inc. Conflict of Interest Policy.
- O. Related Entity means an entity, other than the Cooperative, or an entity of which the Cooperative is a member:
- (1) Controlled by an Official or an Official's Related Individual;
 - (2) In which an Official owns more than ten percent of the entity's shares or interests;
 - (3) For which an Official is a general partner or member of the governing body;
 - (4) For which an Official is a trustee, guardian, personal representative, or similar fiduciary;
 - (5) Employing an Official; or
 - (6) Controlled by an entity employing an Official.
- P. Related Individual means an individual:
- (1) Who is the spouse of an Official;

- (2) Who is, or is the spouse of, a child, stepchild, grandchild, parent, step parent, grandparent, sibling, step sibling, half sibling, aunt, uncle, niece, or nephew of an Official or the Official's spouse;
- (3) Residing with an Official;
- (4) For whom an Official is a trustee, guardian, personal representative, or similar fiduciary; or
- (5) Employing an Official.

Q. Related Person means a Related Entity or a Related Individual

R. Subsidiary means an entity Controlled by the Cooperative.

2. Employment and Income. A Director may not be employed by the Cooperative. Unless an Official discloses income or employment to the Board and a majority of Disinterested Directors authorizes or ratifies the income or employment, the Official:
 - A. Other than retirement or insurance income from the Cooperative, and other than Director or employment compensation from the Cooperative, may not directly or indirectly receive more than ten percent of the Official's annual gross income from the Cooperative or a Cooperative employee;
 - B. May not directly or indirectly receive more than twenty-five percent of the Official's annual gross income from another Official; and
 - C. May not have a Related Individual employed by the Cooperative.
3. Competition. An Official may not advance the Official's pecuniary interests, or have a Related Person that advances the Related Person's pecuniary interests, by competing with the Cooperative unless:
 - A. There is no reasonably foreseeable harm to the Cooperative from the competition;
 - B. Any benefit that the Cooperative may reasonably expect to derive from the competition outweighs any reasonably foreseeable harm to the Cooperative from the competition; or
 - C. The Official discloses the competition to the Board and a majority of Disinterested Directors authorizes or ratifies the competition.
4. Conflicting Interest Transaction. An Official may not engage in a Conflicting Interest Transaction unless:

- A. To the extent unknown by Disinterested Directors, the Official discloses the existence and nature of the Official's conflicting interest and all facts known to the Official regarding the Transaction that a Disinterested Director would reasonably believe to be material in acting regarding the Transaction; Disinterested Directors deliberate and vote regarding the Transaction outside the presence of, and without participation by, the Official; and a majority of Disinterested Directors, but not less than two, authorizes the Transaction; or
 - B. According to the circumstances at the time the Board considers the Transaction, or at the time the Cooperative becomes legally obligated regarding the Transaction, the Transaction, as a whole, benefits the Cooperative, considering, as appropriate, whether the Transaction was fair in terms of the Official's dealings with the Cooperative and whether the Transaction was comparable to what might have been obtained in an arm's length transaction, given the consideration paid or received by the Cooperative.
5. Business Opportunity. An Official may not directly or indirectly take advantage of a Business Opportunity unless, before the Official becomes legally obligated regarding the Opportunity:
- A. The Official informs the Cooperative of the Opportunity; and
 - B. To the extent unknown by Disinterested Directors, the Official discloses the existence and nature of the Opportunity and all facts known to the Official regarding the Opportunity that a Disinterested Director would reasonably believe to be material in acting regarding the Opportunity; Disinterested Directors deliberate and vote regarding the Opportunity outside the presence of, and without participation by, the Official; and a majority of Disinterested Directors, but not less than two, disclaims interest in the Opportunity.
6. Insider Pecuniary Benefit. An Official may not use Cooperative property, material private information, or position to secure pecuniary benefit unless:
- A. Value is given for the use and assuming the use is a Conflicting Interest Transaction, the Official could engage in the Transaction under this Policy;
 - B. The use is payment of compensation or provision of benefits;

- C. The use is of information only and the use is not connected with trading securities, is not a use of proprietary information, and does not harm the Cooperative;
- D. Assuming the use is a Conflicting Interest Transaction, a majority of Disinterested Directors authorizes the Transaction under this Policy;
or
- E. The benefit is received as a Cooperative member; made available to all other similarly situated Cooperative members; and lawful.

7. Compliance and Enforcement. The Board interprets and enforces this Policy. The Cooperative's legal counsel must annually review this Policy with all Officials. The minutes of all Board meetings should record all disclosures, votes, authorizations, and other actions taken under this Policy. Each Official must annually complete and sign the Conflict of Interest Certification and Disclosure Form attached to this Policy and deliver the completed and signed Form to the President or Manager. If an Official discovers any information or fact that could impact another Official's compliance with this Policy, then the Official must disclose the information or fact to the President or Manager immediately.

If the Manager or President receives a Form disclosing any information or fact that could impact an Official's compliance with this Policy, then, respectively, the Manager must deliver the Form to the President and President must distribute the Form to the Board. If the Manager or President receives or discovers any other information or fact that could impact any Official's compliance with this Policy, then, respectively, the Manager must disclose this information or fact to the President and President must disclose this information or fact to the Board.

Upon receiving or discovering any information or fact that could impact a Director's compliance with this Policy, the Board must:

- A. Provide the Director an opportunity to comment orally and in writing regarding the information or fact, and an opportunity to be represented by legal counsel; and
- B. Determine whether the Director complies with this Policy.

If the Board determines that a Director does not comply with this Policy, then:

A. The Board must provide the Director an opportunity to comply with this Policy within thirty days; and

B. If the Director does not comply with this Policy within thirty days, then, as allowed by law, the Board must sanction, disqualify, and/or remove the Director.

Upon receiving or discovering any information or fact that could impact any other Official's compliance with this Policy, the board must act as appropriate or authorize the Manager to act as appropriate.

Approved by the Board of Directors

President

Date Adopted: December 18, 2008