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**Testimony Submitted by
Texas State Representative Patrick M. Rose**

**Governance and Financial Accountability of
Rural Electric Cooperatives: the Pedernales Experience**
Committee on Oversight and Government Reform
Thursday, June 26, 2008, 10:00 AM
2154 Rayburn House Office Building

Since 2003, I have represented Johnson City and the Pedernales Electric Cooperative (PEC) headquarters in the Texas House of Representatives. It is impossible to represent this district and not recognize the PEC's rich history and foundational role in the Texas Hill Country. As an elected official representing thousands of members and employees of this organization, it is my duty to ensure its long-term success, and that is why I am here before you today.

As the co-op navigates these turbulent times, I am committed to reforms that strike a balance between statutory oversight and local control. PEC members need and deserve a co-op that is open and transparent. We can do that with the right reforms at the state level, and I know that Sen. Fraser and I will continue to work together so that Texas can become an example for states across our nation.

Why are we here? The PEC Board has historically relied on a self-perpetuating nominating committee and a proxy system for its elections. This policy and a lack of transparency in the co-op's business practices are at the core of the PEC's problems today.

At the PEC annual board meeting last June, members advocated for a democratic process to elect directors and a more open co-op. In the months that followed, Sen. Fraser and I publicly asked the co-op to make these and other changes.

Disappointed by the arrogance shown by the board, the absolute lack of acknowledgment of member concerns, and desire for reforms, on September 4th, 2007, I formalized my request to PEC. I wrote then PEC General Manager Bennie Fuelberg asking for a series of reforms and informing the co-op of my intention to require these statutorily if needed. As a starting point, I requested that the PEC do the following:

- Submit compensation information for PEC senior staff and board members to the IRS as required by federal law from 2004 to the present;
- Implement a standing policy, effective immediately, prohibiting board members from serving as employees of PEC;
- Change bylaws with regard to the process of electing board members;
- Begin paying some level of capital credits in the next year; and
- Disclose immediately to the public audit financials for PEC as well as any and all subsidiaries and publish this information at its annual meetings and on its website.

The good news is that during the last year, the PEC has made all of these changes. And during last Saturday's annual meeting, members participated in democratic elections with 58 candidates vying for 5 board positions.

However, I believe that these reforms only took place because of a bright public spotlight, relentless members, a lawsuit, and media

scrutiny that together have unveiled severe financial and management lapses.

The PEC board and senior management have clearly taken advantage of its employees and its members. PEC employees are doing their job, and customers have excellent electric service at a cost that is considerably lower than the average rate charged by private utilities in areas such as Dallas, Houston, and South Texas.

Texas co-ops bring an important balance to our electric market and have the opportunity to be our best consumer advocates. I believe that the Texas Legislature must keep this in mind as excessive regulation in response to the mismanagement at PEC could lead to higher rates for Texas customers.

We must end the PEC board and senior management's high salaries and lavish spending in order to protect ratepayers. We need to implement laws that regulate co-op boards and, at the same time, protect customers from high electricity costs.

I believe that statutory changes are the only way to ensure that the PEC keeps its electric rates low and shares its profits with ratepayers today and in the future.

This means overseeing the Navigant audit of PEC that was mandated as part of settlement proceedings in district court. We must learn what went wrong in order to craft legislation that prevents mismanagement in the future.

The results of the Navigant audit are expected in August, and nothing short of a complete retrospective look at past practices and transactions, as well as an analysis of appropriate benchmarks and standards to apply to PEC's operations prospectively, will be acceptable. Should Navigant fall short, I will statutorily require an audit to be conducted by the State Auditor's Office when the Legislature reconvenes in January 2009.

Sen. Fraser and I worked together to request that the Texas Public Utility Commission direct and control the management of the audit to secure independence from the PEC board and senior management. Although I am pleased with the PUC's oversight of the Navigant audit, I have always maintained that the severity of the alleged fraud requires a non-biased state audit for the membership to get the answers it needs and deserves.

During the next legislative session, I am prepared to file legislation that will require all electric cooperatives in Texas to:

- Comply with Open Meetings and Public Information statutes;
- Submit annual audits to the PUC for review; and
- Stop the use of nominating committees as a way of selecting candidates for elections.

The intent of this legislation would not be to add unnecessary costs or regulation, but to promote transparency and informed member participation. I believe this is the only way to fully prevent mismanagement and fraud, not only today, but in the future.

Thank you.