

## Consolidating with McLennan County EC *Why Is This Consolidation a Good Thing?*

The Belfalls Electric Cooperative (BFEC) Board of Directors has been anticipating changes and has been strategically positioning our cooperative to take advantage of new opportunities. Consolidating operations with McLennan County Electric Cooperative (MCEC), a neighboring cooperative headquartered in McGregor, fits perfectly into that plan.

Your board of directors has shown a philosophy of looking to the future by approving a resolution to consolidate with MCEC. Your board and management team has spent an enormous amount of time preparing for this to assure themselves that this effort will be good for both cooperatives.

"This isn't a big corporate merger," said Rick Haile, general manager/CEO of McLennan County Electric Cooperative. "This is simply two neighboring cooperatives realizing the advantages of working together to better position ourselves for the marketplace we are in."

"Truth is, what we are trying to do is very similar to what was done back in the 1930s when electric cooperatives were first established—we are cooperating again to obtain better

buying power, greater efficiencies and market share."

With this consolidation, members of both cooperatives will experience the positive effect of a larger, stronger and more viable organization. The quality, personal day-to-day service

**"This isn't a big corporate merger."**

will continue and strengthen. By itself, "bigger" is certainly not necessarily "better," but combining the resources of these two financially stable cooperatives is a sound economic move for both entities and their members. Being larger will allow us to minimize expenses without com-

promising service.

There are no plans to close either of the two offices (Rosebud and McGregor). There will be no decrease in service.

Our telephones will continue to be answered by a real, live employee. No jobs will be lost as a result of this consolidation. Our history of working for the best interests of consumers puts us in a unique position as electric utilities.

This proposed consolidation needs your approval. The board has called for a special meeting on November 16 at the Rosebud office. On the cover of this issue, you will find your official voting ballot. Your board of directors recommends that you vote FOR the consolidation of BFEC and MCEC.

Jointly, the new entity would serve approximately 18,000 meters and over 15,300 members with more than 3,526 miles of energized line. Counties served would include all or parts of Bell, Bosque, Coryell, Falls, Hamilton, McLennan and Milam.

If you have any questions or comments about the consolidation effort, please call the BFEC office at (254) 583-7955.



**Happy Thanksgiving from Belfalls Electric Cooperative**

The offices of Belfalls Electric Cooperative will be closed November 23 and 24 in observance of Thanksgiving.

### IN EMERGENCIES

During regular business hours:

**(254) 583-7955**

Please contact our after-hours answering service in case of an outage not occurring during business hours.

**(254) 583-7955**

**(254) 751-8458**

# Consolidation Agreement

This Consolidation Agreement is made by and between Belfalls Electric Cooperative, Inc., having its principal office at 128 Main Street, Rosebud, Texas ("BFEC"), and McLennan County Electric Cooperative, Inc., having its principal office at IIII South Johnson Drive, McGregor, Texas ("MCEC"). (BFEC and MCEC are collectively referred to herein as the "Consolidating Cooperatives".)

## RECITALS

1. BFEC is an electric cooperative, non-profit membership corporation organized pursuant to the Electric Cooperative Corporation Act of the State of Texas, Chapter 161 of the Texas Utilities Code (the "Act"), as the result of Charter No. 7229401 issued October 26, 1937.

2. MCEC is an electric cooperative, non-profit membership corporation organized pursuant to the Act as the result of Charter No. 7232501 issued November 1, 1937.

3. The BFEC Board of Directors has determined that it is in the best interest of BFEC to consolidate with MCEC in accordance with the terms and provisions of this Agreement and the Act.

4. The MCEC Board of Directors has determined that it is in the best interest of MCEC to consolidate with BFEC in accordance with the terms and provisions of this Agreement and the Act.

## AGREEMENT

In consideration of the mutual covenants expressed herein, the sufficiency of which is hereby acknowledged, MCEC and BFEC hereby agree as follows:

I. Agreement to Consolidate. MCEC and BFEC agree to consolidate as provided for in Section 161.201 of the Act and in accordance with the terms and provisions hereof.

2. Effective Date. The effective date (the "Effective Date") of the Consolidation shall be July 1, 2007, provided:

A. The Consolidation has been approved by the vote of a majority of the members of MCEC present in person or represented by proxy at a regular or special meeting of its members called for that purpose in compliance with its articles of incorporation, bylaws and the laws of the State of Texas;

B. the Consolidation has been approved by the vote of a majority of the members of BFEC present in person or represented by proxy at a regular or special meeting of its members called for that purpose in compliance with its articles of incorporation, bylaws and the laws of the State of Texas;

C. that the membership votes shall be held at separate day-time membership meetings at the same time for both Co-ops.

D. the Articles of Consolidation, substantially in the form attached hereto as Exhibit A, has been signed, acknowledged and filed with the Secretary of the State of Texas, as required by the Act; and

E. the Secretary of the State of Texas has issued a Certificate of Consolidation, evidencing July 1, 2007, as the effective date of the consolidation.

Otherwise, the Effective Date shall be the date indicated on the Certificate of Consolidation as issued by the Secretary of the State of Texas.

3. Effect of Consolidation. On the Effective Date,

A. the separate existence of MCEC and BFEC shall cease, and there shall be created in their stead a single, new electric cooperative corporation as provided for in this Agreement.

B. by operation of law and without requirement of further act or deed, the new cooperative shall have all the rights, property and interests of every kind or nature of each of MCEC and BFEC and shall be subject to all the debts, liabilities and obligations of every kind and nature of each of MCEC and BFEC.

4. Name and Purposes. The name of the new cooperative shall be Heart of Texas Electric Cooperative, Inc., ("HOTEC") and its purposes shall be as set forth in the Articles of Consolidation.

5. Principal Office. The principal office of HOTEC shall be IIII South Johnson Drive, McGregor, Texas.

6. Directors. With the exception of DALE HOELSCHER, and

CALVIN RACHUI, each of whom shall be special advisors ("Special Advisors") to the Board of Directors of HOTEC for a period of five (5) years and LEMUEL WILLIAMS (who shall be an at-large voting director for a period of five (5) years from the Effective Date), the persons who are serving as directors of MCEC and of BFEC on the Effective Date shall be all the directors of HOTEC until the occurrence of an annual meeting of the members of HOTEC following the second anniversary of the Effective Date. Thereafter directors shall be elected on staggered three (3) year terms. The names and addresses of the initial directors of HOTEC are set forth in the Articles of Consolidation, and each such person shall exercise the duties of director until his or her successor is duly elected as provided in the Articles of Consolidation.

7. Directors' Districts. Within a reasonable period of time following the expiration of the two (2) year term of the initial directors, the Board of Directors will evaluate the re-designation of member districts based on the principle of proportional representation.

8. Directors' Benefits. The benefits of all initial directors of HOTEC, including the Special Advisors, shall be commensurate with the greatest benefits being received by any director of either BFEC or MCEC immediately prior to the Effective Date of the Consolidation.

9. Members. As of the Effective Date, each issued and outstanding membership of MCEC and BFEC shall become an issued and outstanding membership of HOTEC, whereupon each member of HOTEC may surrender his or her membership certificate in either MCEC or BFEC for a membership certificate in HOTEC.

10. General Manager. Rick W. Haile shall be the General Manager and CEO of HOTEC.

11. Capital Credits. The patronage capital account of each of the members of MCEC and BFEC will be carried forward by the name of each member and will become the beginning patronage capital of HOTEC. During the first year, member margin allocations will be proportional to the 2005 member margin allocations of each of MCEC and BFEC; no retirement allocations will be affected adversely. No member shall be paid any capital that has been credited to his or her membership account except by action of the Board of Directors of HOTEC, in accordance with the terms and conditions of the Articles of Consolidation and such bylaws as may be adopted by the Board of Directors of HOTEC.

12. Employees. On the Effective Date, each MCEC and BFEC employee shall become an employee of HOTEC without loss of accrued vacation, sick leave, compensation or fringe benefits. Following the Effective Date, to the extent feasible each HOTEC employee shall be employed in substantially the same or similar position as employed prior to the Consolidation. As a result of the Consolidation, employee salaries may or may not be increased but shall not be decreased. No Director or retired employee will lose any accrued benefit; provided however that HOTEC will provide retirement benefits insofar as economically feasible and as provided for in the NRECA Retirement Adoption Agreement and/or SelectRE Pension Plan Adoption Agreement. Nothing in this paragraph 12 shall (i) be construed to impair the right of HOTEC to reassign any employee as necessary or to terminate any employee for cause or as otherwise allowed by applicable law, or (ii) create an employment agreement or modify any existing employment agreement between any employee and HOTEC or either of MCEC or BFEC.

13. Service Area. On the Effective Date and thereafter HOTEC shall provide electric service in the retail service areas formerly served by MCEC and BFEC.

14. Rates. BFEC and MCEC recognize that their respective rates and customer classifications are different. It is the intent of MCEC and BFEC that HOTEC have uniform, system-wide rates for all customer classes as soon as may be deemed prudent by the Board of Directors of HOTEC. Such new rates may take into account competition and density, among other factors. Notwithstanding any other provision of this paragraph 14, the Board of

Directors of HOTEC may define and/or redefine the customer classes from time to time as may be appropriate, including the applicability and availability of any rate. Until such time as uniform, system-wide rates are adopted by the Board of Directors of HOTEC the rates and classifications currently in place with regard to all members of BFEC and MCEC shall remain in force and effect in the service areas of MCEC and BFEC as such service areas existed before the consolidation.

15. Prohibited Activities. During the period between the date of this Agreement and the Effective Date, neither BFEC nor MCEC will do any of the following without the prior written consent of the other:

A. Incur any liabilities (except current liabilities and obligations entered into in the ordinary course of business).

B. Satisfy any lien or encumbrance, or pay any liability, except for current liabilities shown on their respective balance sheets dated September 30, 2006, and those operating expenses and liabilities paid in the ordinary course of business.

C. Make any distribution of capital credits to its members after October 31, 2006.

D. Mortgage, pledge, grant a security interest in, or encumber any of its assets, either tangible or intangible.

E. Sell, assign, or transfer any of its tangible or intangible assets.

F. Waive any rights that may substantially affect the interests of the waiving party.

G. Enter into a transaction not in its ordinary course of business.

16. Termination of Agreement. This Agreement may be terminated or abandoned by a majority vote of the Board of Directors of either MCEC or BFEC at any time before the Effective Date, provided:

A. the other party has materially breached any provision of this Agreement; or

B. the other party fails to furnish any certificates or other documents reasonably requested and that each party has agreed to furnish to affect the Consolidation; or

C. the other party cannot obtain any consent or approval of any third party that is legally required or practically necessary to the consummation of the Consolidation, including without limitation any required approvals of the Rural Utilities Service (RUS), the National Rural Utilities Cooperative Finance Corporation (CFC) or the Texas Public Utility Commission (TPUC); or

D. there occurs any material and adverse change or event in the other party's financial condition, assets, liabilities, employee compensation, pension benefits, or there arises material and adverse labor trouble, litigation or business condition (other than changes in the ordinary course), or that any of these occur with regard to any of its subsidiaries.

17. Miscellaneous.

A. Complete Agreement. This Agreement constitutes the entire agreement and understanding between MCEC and BFEC with respect to its subject matter and supersedes all prior agreements and understandings, written or oral, between MCEC and BFEC with respect to such subject matter.

B. Governing Law. This Agreement will be governed by the laws of the State of Texas, without giving effect to its conflicts of law principles.

C. Counterparts. This Agreement may be executed in any number of counterparts, each of which when executed and delivered shall be deemed an original, and all such counterparts shall constitute one and the same instrument.

D. Assignment. This agreement may not be assigned.

By: Garland Cook	Larry Stock
President	President
MCEC Board of Directors	BFEC Board of Directors