

VALLEY ELECTRIC ASSOCIATION, INC.

Corporate Policy #107

POLICY ON OFFERS TO ACQUIRE ALL OR SUBSTANTIALLY ALL OF THE ASSOCIATION'S ASSETS

Date: July 31, 2009
Supersedes: March 20, 1997
Formerly: Policy Cor 111

I. OBJECTIVE:

The Association was created to bring electric service to homes, business, farms and ranches in areas where service was not otherwise available;

The Association was organized to provide its members with adequate and reliable electric service, to assist its members in the efficient and economical use of energy;

The Association is a viable business, which is efficiently performing the services for which it was organized;

The Association is also a vital part of the communities which it serves, and as such, has concerns that include the interests of those communities;

The Association is operated as a non-profit cooperative corporation, whereby all revenues in excess of the Association's expenses are allocated to its members on a patronage basis as capital credited to members' accounts, and those capital credits are retired to the members in accordance with Nevada law and the Articles of Incorporation and Bylaws of the Association;

The Board of Directors recognizes the possibility that the Association could in the future receive an offer to acquire all or substantially all of the Association's assets, whether by purchase, merger, lease, or otherwise;

The Board of Directors has determined that in order for the Directors to carry out their duties to the Association involved in undertaking repeated due diligence reviews, and abide by the terms of its Articles of Incorporation, Bylaws, and any applicable laws or regulations, it is in the best interest of the Association and its members to establish certain procedures to govern the Association's receipt, consideration, and final action on an offer.

II. POLICY

The Board of Directors of the Association hereby adopts the following Policy, to establish certain policies and procedures relating to offers, which shall be followed unless the Board

determines that an exception is required by extenuating circumstances. This Policy is designed only to provide guidance for the Association's Board of Directors and shall not be construed to create rights in the Association's members, a party submitting an offer to the Association, or any other person, corporation, or other entity. Finally, this Policy shall not be amended or repealed, except by an affirmative vote of two-thirds (2/3) of the Directors.

A. BOARD POLICIES AND PROCEDURES

1. If an offer is received by the Association and such offer is not a Qualifying Offer (as defined in Paragraph A (3), below), it shall be considered an "Inquiry." The recipient of any Inquiry shall notify the person, corporation, or other entity submitting the Inquiry, that, under the terms of this Policy, the Board of Directors shall not consider an offer unless it qualifies as a Qualifying Offer, as defined in Paragraph A (3).
2. The Chief Executive Officer of the Association shall notify the Board of any Inquiry or Qualifying Offer immediately upon notice thereof.
3. The Board of Directors shall consider only offers which meet all of the criteria listed in this Paragraph, in which case it shall be considered a Qualifying Offer. If at any time it is determined that an offer does not meet all the criteria in this Paragraph, it shall be rejected by the Board, and the person, corporation, or other entity submitting the offer (the "Interested Party") shall be notified of the rejection. The Interested Party, however, shall be given an opportunity to submit additional information to meet these criteria within a reasonable period of time, not to exceed three (3) months.
 - a. A Qualifying Offer must be a written offer, containing the acquisition price and all other material terms which is binding upon the Interested Party until a specified date or until rejected;
 - b. A Qualifying Offer must specify the date upon which it will expire if not accepted by the Association;
 - c. A Qualifying Offer must disclose the identity of the Interested Party and be executed by authorized representatives of the Interested Party;
 - d. A Qualifying Offer must contain the names, addresses, and telephone numbers of persons representing the Interested Party with whom the Board may communicate and from whom it may secure authoritative answers regarding the Qualifying Offer;
 - e. In light of the expense in responding to a Qualifying Offer, a Qualifying Offer must be accompanied with an Escrow Agreement acceptable to the Association, which Agreement shall require the Interested Party to deposit an amount equal to at least 10 percent of the

Total Utility Plant in an escrow account. The terms of the Escrow Agreement shall provide that the principal amount of the deposit may be drawn upon by the Association to:

- i. pay all costs (including accounting, engineering and legal) of studies, reviews, analyses, and appraisals by and for the Association in its evaluation of the Qualifying Offer; and
- ii. pay costs incurred by the Association in seeking regulatory approvals.

If the offer is withdrawn or rejected, any remaining balance in the escrow account shall be paid to the Interested Party when the Board certifies that all costs set forth in (a) and (b) of this section have been paid in full.

- f. A Qualifying Offer must contain an agreement by the Interested Party not to issue press releases or discuss the Qualifying Offer with the media without prior written notification to the Association, and to refrain from issuing misleading statements or advertising; and
- g. A Qualifying Offer must not be in direct conflict with the terms of the Association's Articles of Incorporation, Bylaws, this Policy or any applicable law or other policies.

4. Upon a determination by the Board that it has received a Qualifying Offer, the Board shall:
 - a. Designate the Chief Executive Officer to receive all communications, including telephone calls and written communications, from the Interested Party, the members, and the media. The Chief Executive Officer shall understand and follow this Policy, but not have authority to bind the Board or the Association on any matter regarding the Qualifying Offer.
 - b. Notify the Association's members of the receipt of the Qualifying Offer. The Notice should include the following:
 - i. a summary of the Qualifying Offer;
 - ii. a statement that the Board has taken the Qualifying Offer under advisement, as is required by the terms of this Board Policy;
 - iii. a brief description of the procedures the Board shall follow in evaluating the Qualifying Offer;

- iv. a statement that the members may review a copy of the Qualifying Offer at the Association's office during its regular business hours; and
 - v. the name of the person whom the members may contact with questions regarding the Qualifying Offer.
- c. Send a copy of the Qualifying Offer to its attorney.
 - d. Send a copy of the Qualifying Offer to any lenders and request a statement as to the effects of the Qualifying Offer upon the Association's Mortgage and Loan Agreement or other instruments relating to the Association's outstanding debt.
 - e. Obtain at least two (2) independent appraisals concerning the value of the Association and its assets. The appraisal should use commonly accepted valuation methods.
 - f. Obtain a comparison of the Association's and the Interested Party's present and foreseeable future rates; fees and charges; including service extension requirements; other service rules and regulations; adequacy and reliability of service; and any other considerations relevant to the provision of electric service.
 - g. Request detailed information from the Interested Party, such as annual reports, tax returns, and form 10-K filings dating back at least five (5) years; full copies of all relevant audits, internal planning documents, employee policy manuals and union contracts; a current stockholder list; a listing of all pending court and administrative proceedings; and any relevant operations manuals, engineering studies, construction plans, and environmental impact statements.
 - h. Request the Interested Party to submit an expert opinion on the potential tax liabilities of the transaction to the Association and the members.
 - i. Undertake any other investigations, studies, or comparisons which the Board considers relevant to its evaluation of the Qualifying Offer.
 - j. Evaluate the Qualifying Offer in accordance with the terms of this Policy, considering the evaluation criteria set forth in Paragraph II, below and any other criteria which the Board deems relevant.
- 5. After evaluation, if the Board determines that the Qualifying Offer should be rejected, it shall notify the Interested Party and the Association's members of

the reasons for the rejection. The Board shall also notify its attorney and any lenders of the Board's decision.

6. If, after evaluation, a two-thirds (2/3) majority of the Board determines that the sale, lease, merger, or other acquisition proposed by the Qualifying Offer is in the best interest of the Association and its members, the Board shall notify the Interested Party of its intent to further pursue the transaction, subject to written agreement by the Interested Party to the following terms and conditions:
 - a. that any adverse impacts upon the Association as an entity and its present and former members will be minimized to the extent practicable;
 - b. that all existing employees of the Association are offered continued employment for at least three (3) years upon terms at least equal to those enjoyed by the Association's employees at the time the Qualifying Offer was submitted to the Board. The terms to be considered shall include wages, salaries, severance benefits, insurance and pension benefits, fringe benefits, rank and job title, union membership, place of employment and residence;
 - c. that the Interested Party will indemnify and hold harmless any employees, Directors, officers, agents, servants, attorneys, accountants, consultants, representatives, affiliates subsidiaries, and insurers of and all others acting in privity with the Association for any actions taken in connection with the Qualifying Offer;
 - d. that the total consideration for the acquisition will be paid directly to the Association or its account; provided however, that a Qualifying Offer of merger may provide for acquisition of stock by the Association's members in exchange for their capital credits and membership; and
 - e. that the transaction will become void if all regulatory and contractual approvals are not obtained within a reasonable time after member approval.
7. After the Board has received the Interested Party's written agreement to the terms and conditions in Paragraph A (6), the Board shall submit a "Notice of Opportunity to Exercise Refusal" (as that term is defined in the First Refusal Agreement) to those parties having such rights thereunder. Once the Notice of Opportunity to Exercise Refusal has been submitted, the Board shall not permit the Interested Party to change any material terms in either its Qualifying Offer or its written agreement to the terms and conditions in Paragraph A (6).

8. If a party to the First Refusal Agreement exercises its rights thereunder (the "First Refusal Offer"), the Board shall proceed with a vote of the members on the First Refusal Offer pursuant to Paragraphs A (9) through A (13) below. The Board shall only proceed under Paragraphs A (9) through A (13) below, on a Qualifying Offer if no party to the First Refusal Agreement has exercised its rights thereunder; or if the Association's members have rejected the First Refusal Offer.
9. Before submitting the Qualifying Offer or the First Refusal Offer to a vote of the members, the Board shall notify its attorney and any lenders of the Board's intention to submit it to a vote of the members.
10. Once the above procedures have been followed, the Board shall notify the members in writing of its intent to submit the Qualifying Offer or the First Refusal Offer to the membership for a vote. The notice shall include a summary of the final terms and conditions of the Qualifying Offer or the First Refusal Offer. A membership meeting shall be called for the purpose of voting on the Qualifying Offer or the First Refusal Offer. The meeting shall be called pursuant to the Association's Articles of Incorporation, Bylaws, and applicable laws and regulations.
11. Any meeting of the members to vote on the Qualifying Offer or the First Refusal Offer shall be conducted according to Robert's Rules of Parliamentary Procedure, or any other generally accepted rules of parliamentary procedure, and the Board of Directors shall designate a person with expertise in such matters to chair the meeting.
12. If the members vote to accept the Qualifying Offer or the First Refusal Offer, the Board shall take all actions necessary to finalize the transaction and, if necessary, dissolve and wind up the business of the cooperative; provided however; that it shall be the responsibility of the Interested Party to obtain all necessary regulatory and contractual approvals. Unless such approvals are obtained within a reasonable time, the transaction shall be deemed to be null and void.
13. If at any time a Qualifying Offer is rejected, whether by the Board or by the members, or if a Qualifying Offer is withdrawn by the Interested Party, any further such Qualifying Offer by the Interested Party or any of its affiliates or subsidiaries within two (2) years after the date of rejection shall be rejected by the Board unless it materially differs from the withdrawn or rejected Qualifying Offer.

B. EVALUATION CRITERIA

As provided in Paragraph A (4)(b)(j), above, the Board may consider any criteria which the Board deems relevant in its evaluation of a Qualifying Offer. To the extent practicable, and so long as not inconsistent with the best interests of the members, the Board shall consider each of the following criteria;

1. Whether the Qualifying Offer is in the best interest of the Association's present and future members. In determining whether the Offer is in the members' best interest, the Board should consider both economic and non-economic matters, both at the present time and for the reasonably foreseeable future.
2. The results of the independent appraisals concerning the fair value of the Association. Although the Board shall consider all such information and opinions, it shall have the final responsibility to make the Association's official determination of value and whether acceptance of the Qualifying Offer is in the best interests of the Association and its members.
3. Whether the Qualifying Offer is in compliance with all applicable laws, regulations, and requirements of the Association's Articles of Incorporation, Bylaws and policies.
4. Whether the Qualifying Offer complies with all requirements of the Association's mortgage and loan documents.
5. Whether the Qualifying Offer is in compliance, or would allow the Association to comply, with all contractual obligations with other parties.
6. Whether rates, fees, and other charges, and service rules and regulations of the Interested Party will be at least equivalent to, or better than, those of the Association, both at the time of the Qualifying Offer and for the reasonably foreseeable future, but for a minimum of five (5) years. In evaluating rates, the Association's capital credit system shall be taken into account. In addition, the Board should consider how the members' rates may be impacted in the future by the cost of the acquisition.
7. Whether the Interested Party's electric service would be at least as reliable as that provided by the Association at the time of the Qualifying Offer and as projected into the reasonably foreseeable future.
8. Whether other service functions affecting the members would be at least as good as those afforded by the Association.
9. Whether the Interested Party is financially able to consummate the Qualifying Offer. The Board should also consider the source and feasibility of the proposed financing.

10. Whether the Interested Party would continue or enhance the Association's community involvements.

III. RESPONSIBILITY

The Board of Directors shall be responsible for the administration of this policy.