

Statement of John Watson

To the Committee on Oversight and Government Reform

June 26, 2008

Chairman Waxman and Ranking Member Davis, I appreciate this opportunity to offer an ordinary member's perspective on the questionable and abusive practices at the Pedernales Electric Cooperative ("PEC" or "co-op"). I will describe how those abuses led to a member uprising beginning in January 2007, and the reforms that have resulted. In spite of the difficulties, however, I want to leave no doubt as to my strong support for electric distribution co-ops and public power.

My wife, Erin, and I have been PEC members for 14 years. As individual members we had attended Annual Meetings, and asked the management and Board to increase efforts toward greater energy conservation and an increased reliance on renewable energy. We had urged greater transparency and openness when members sought to participate or obtain information. These pleas produced no meaningful results.

In January 2007, the San Antonio Express-News ran an article detailing PEC director compensation. The information was from the 2005 IRS Form 990. This report triggered a series of events that can rightly be called a member uprising.

We began to organize. Other area newspapers began to investigate and report on PEC. A class action lawsuit was filed in Austin alleging a catalogue of abusive practices. Elected officials were besieged by constituents, and began playing an active role in demanding more information and reforms.

Among the abusive practices uncovered at PEC were excessive compensation and benefits for the 17 directors and several senior management officials, a closed nomination and election procedure leading to a self-perpetuating Board (22 years average tenure), closed Board meetings, absolute refusal to return capital credits (members' equity) to member/owners, refusal to provide any information on the wholly owned subsidiary, Envision (that has been losing several million dollars a year), and utter lack of transparency and openness. Through the lawsuit discovery, we later learned of still more serious lapses in fiduciary responsibility and ethical conduct.

In January 2007, a small group decided to take coordinated and decisive action to establish co-op member control, one of the core co-op principles.

We continued the attempt to work within the existing framework, as unfair as it was. I called the former General Manager, Mr. Bennie Fuelberg, and requested the opportunity for a group to appear before the Board's Nominating Committee. Seven members attended and presented three candidates. All were highly qualified, but the Committee re-nominated the directors whose terms were expiring, so they were unopposed on the proxy ballots sent to all members.

Next, a group of members attended the Board meeting in late March 2007, and presented by-law amendment language to change the nomination and election process. Again, we were ignored.

In May 2007, the class action lawsuit was filed. Throughout the summer and fall we continued to voice our demands. By now those included a demand for the resignation of all directors.

In November 2007, after plaintiffs' deposition of senior PEC management officials and some directors, there were several rapid developments:

- The General Manager and President of the Board announced their retirements.
- A change in nomination and voting procedures was adopted.
- Return of \$7.3 million in Capital Credits to members was announced.

In January 2008, Mr. Juan Garza was hired as the new General Manager. The local District Attorney, Mr. Sam Oatman, launched a preliminary criminal investigation. Board meetings were opened to members for the first time. In March 2008, settlement of the class action lawsuit was announced. In May, despite the almost 300 objections filed with the court by members protesting the terms of the settlement, judgment was entered.

Members with whom I worked on the reforms believe strongly in electric co-ops and public power. We think that the efforts of activated members; the press, especially the persistence of Ms. Claudia Grisales of the Austin American Statesman and Ms. Jodi Lehman of the Horseshoe Bay Beacon; elected officials, particularly Sen. Troy Fraser and Rep. Patrick Rose; and the lawsuit have combined to begin the process of establishing control of our co-op by its member/owners. Mr. Garza has committed himself to work for many of the reforms we have long sought, including voluntarily bringing PEC under the provisions of the Texas Open Meetings and Open Records Acts.

Transparency and openness, combined with a fair electoral process leading to much reduced director tenure, could have prevented many of the abuses suffered by PEC members. Much remains to be done, and we intend to remain active and vigilant. Working together with Mr. Garza and the newly elected directors, we will push until we have a co-op that truly is responsive to its members and that complies fully with the co-op principles.

Thank you for this opportunity to tell part of our story. I will be pleased to answer any questions that Committee members might have.