

BYLAWS

OF

CAPE HATTERAS ELECTRIC

MEMBERSHIP CORPORATION

APPROVED
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BYLAWS
CAPE HATTERAS ELECTRIC MEMBERSHIP CORPORATION

ARTICLE I
MEMBERSHIP

SECTION 1.01 Eligibility. Any natural person, firm, association, corporation, business trust, partnership, Federal agency, state or political subdivision thereof, or body politic (each hereinafter referred to as "person," "applicant," "him" or "his") shall be eligible to become a member of, and, at one or more premises owned or directly occupied or used by him, to receive electric service from, Cape Hatteras Electric Membership Corporation (hereinafter called the "Cooperative").

SECTION 1.02 Application for Membership; Renewal of Prior Application. Application for membership -- whereby the applicant agrees to purchase electric power and energy from the Cooperative and to be bound by and to comply with all of the other provisions of the Cooperative's Certificate of Incorporation and Bylaws, and all rules, regulations, rate classifications and rate schedules established pursuant thereto, as all the same then exist or may thereafter be adopted or amended (the obligations embraced by such agreement being hereinafter called "membership obligations") -- shall be made in such form as is provided by the Cooperative. With respect to any particular classification of service for which the Board of Directors shall require it, such application shall be accompanied by a supplemental contract, executed by the applicant on such form as is provided by the Cooperative. The membership application shall be accompanied by the fees provided for in Section 1.03 (together with any service security deposit, service connection deposit or fee, facilities extension deposit, or contribution in aid of construction that may be required by the Cooperative), which fees (and such service security deposit, service connection deposit or fee, facilities extension deposit, or contribution in aid of construction, if any) shall be refunded in the event the application is by Board resolution denied. Any former member of the Cooperative may, by the sole act of paying any fees and any outstanding account (together with any service security deposit, service connection deposit or fee, facilities extension deposit, or contribution in aid of construction that may be required by the Cooperative), renew and reactivate any prior application for membership to the same effect as though the application had been newly made on the date of such payment.

SECTION 1.03. Fees; Service Security and Facilities Extension Deposit; Contribution in Aid of Construction. The fees shall be as

fixed from time to time by the Board of Directors. The fees (together with any service security deposit, or service connection deposit or fee, facilities extension deposit, or contribution in aid of construction, or any combination thereof, if required by the Cooperative) shall entitle the member to one service connection. A service connection deposit or fee, in such amount as shall be prescribed by the Cooperative (together with a service security deposit, a facilities extension deposit or a contribution in aid of construction or any combination thereof, if required by the Cooperative), shall be paid by the member for each additional service connection requested by him.

SECTION 1.04. Joint Membership. Two (2) natural persons, by specifically so requesting in writing, may be accepted into joint membership or, if one of them is already a member, may automatically convert such membership into a joint membership by jointly executing another membership application. The words "member," "applicant," "person," "his" and "him," as used in these Bylaws, shall include two (2) natural persons applying for or holding a joint membership, unless otherwise clearly distinguished in the text; and all provisions relating to the rights, powers, terms, conditions, obligations, responsibilities and liabilities of membership shall apply equally, severally and jointly to them. Without limiting the generality of the foregoing --

- (a) the presence at a meeting of either or both shall constitute the presence of one member, and a joint waiver of notice of the meeting;
- (b) the vote of either or both shall constitute, respectively, one joint vote: PROVIDED, that if both be in disagreement on such vote, each shall cast only one-half ($\frac{1}{2}$) vote;
- (c) notice to, or waiver of notice signed by, either or both shall constitute, respectively, a joint notice or waiver of notice;
- (d) suspension or termination in any manner of either shall constitute, respectively, suspension or termination of the joint membership; and
- (e) either, but not both concurrently, shall be eligible to serve as a director of the Cooperative, but only if both meet the qualifications required therefor.

SECTION 1.05. Acceptance into Membership. Upon complying with the requirements set forth in Section 1.02, any applicant shall automatically become a member on the date of his connection for electric service; PROVIDED, that the Board of Directors may by resolution deny an application and refuse to extend service upon its determination that the applicant is not willing or is not able

to satisfy and abide by the Cooperative's terms and conditions of membership or that such application should be denied for other good cause. Cape Hatteras Electric Cooperative is the recipient of Federal financial assistance from the Rural Utilities Service, an agency of the U. S. Department of Agriculture, and is subject to the provision of Title VI of the Civil Rights Act of 1964, as amended, Section 504 of the Rehabilitation Act of 1973, as amended, the Age Discrimination Act of 1975, as amended, and the rules and regulations of the U. S. Department of Agriculture which prohibit exclusion from participation in, admission or access to, denial of the benefits of, or otherwise be subjected to discrimination under any of this organization's programs or activities. The most current "Statement of Non-discrimination" as issued by the United States Department of Agriculture is applicable to this subject and is incorporated in these By-Laws by reference.

SECTION 1.06. Purchase of Electric Power and Energy; Power Production by Member; Application of Payments to All Accounts. The Cooperative shall use reasonable diligence to furnish its members with adequate and dependable electric service, although it cannot and therefor does not guarantee a continuous and uninterrupted supply thereof; and each member, for so long as such premises are owned or directly occupied or used by him, shall purchase from the Cooperative all central station electric power and energy purchased for use on all premises to which electric service has been furnished by the Cooperative pursuant to his membership, unless and except to the extent that the Board of Directors may in writing waive such requirement; and shall pay therefor at the times, and in accordance with the rules, regulations, rate classifications and rate schedules (including any monthly minimum amount that may be charged without regard to the amount of electric power and energy actually used) established by the Board of Directors and, if in effect, in accordance with the provisions of any supplemental contract that may have been entered into as provided for in Section 1.02. Production or use of electric energy on such premises, regardless of the source thereof, by means of facilities which shall be interconnected with Cooperative facilities, shall be subject to appropriate regulations as shall be fixed from time to time by the Cooperative. Each member shall also pay all other amounts owed by him to the Cooperative as and when they become due and payable. When the member has more than one service connection from the Cooperative, any payment for service to him by the Cooperative shall be deemed to be allocated and credited on a pro rata basis to his outstanding accounts for all such service connections, notwithstanding that the Cooperative's actual accounting procedures do not reflect such allocations and proration.

SECTION 1.07. Wiring of Premises; Responsibility Therefor; Responsibility for Meter Tampering or Bypassing and for Damage to Cooperative Properties; Extent of Cooperative Responsibility; Indemnification. Each member shall cause all premises receiving electric service pursuant to his membership to become and to remain wired in accordance with the specifications of the North Carolina Fire Insurance Underwriters Association, the National Electric Code, any applicable state code or local government ordinances, and of the Cooperative. If the foregoing specifications are different, the more exacting standards shall prevail. Each member shall be responsible for -- and shall indemnify the Cooperative and its employees, agents and independent contractors against death, injury, loss or damage resulting from any defect in or improper use or maintenance of --such premises and all wiring and apparatus connected thereto or used thereon. Each member shall make available to the Cooperative a suitable site, as determined by the Cooperative, whereon to place the Cooperative's physical facilities for the furnishing and metering of electric service and shall permit the Cooperative's authorized employees, agents and independent contractors to have access thereto safely and without interference from hostile dogs or any other hostile source for meter reading, bill collecting and for inspection, maintenance, replacement, relocation, repair or disconnection of such facilities at all reasonable times. As part of the consideration for such service, each member shall be the Cooperative's bailee of such facilities and shall accordingly desist from interfering with, impairing the operation of or causing damage to such facilities, and shall use his best efforts to prevent others from so doing. Each member shall also provide such protective devices to his premises, apparatuses or meter base as the Cooperative shall from time to time require in order to protect the Cooperative's physical facilities and their operation and to prevent any interference with or damage to such facilities. In the event such facilities are interfered with, impaired in their operation or damaged by the member, or by any other person when the member's reasonable care and surveillance should have prevented such, the member shall indemnify the Cooperative and its employees, agents and independent contractors against death, injury, loss or damage resulting therefrom, including but not limited to the Cooperative's cost of repairing, replacing or relocating any such facilities and its loss, if any, of revenues resulting from the failure or defective functioning of its metering equipment. The Cooperative shall, however, in accordance with its applicable service rules and regulations, indemnify the member for any overcharges for service that may result from a malfunctioning of its metering equipment or any error occurring in the Cooperative's billing procedures. In no event shall the responsibility of the Cooperative extend beyond the point of delivery.

SECTION 1.08. Member to Grant Easements to Cooperative and to Participate in Required Cooperative Load Management Programs. Each member shall, upon being requested to do so by the Cooperative, execute and deliver to the Cooperative grants of easement or right-of-way over, on and under such lands owned or leased by or mortgaged to the member, pursuant to terms and conditions specified by the Cooperative, without compensation from the Cooperative, for the furnishing of electric service to him or other members or for the construction, operation, maintenance or relocation of the Cooperative's electric facilities. Each member shall participate in any required program and comply with related rates and service rules and regulations that may be established by the Cooperative to enhance load management, to more efficiently utilize or conserve electric energy or to conduct load research.

ARTICLE II

MEMBERSHIP SUSPENSION AND TERMINATION

SECTION 2.01. Suspension; Reinstatement. Upon his failure, after the expiration of the initial time limit prescribed either in a specific notice to him or in the Cooperative's generally publicized applicable rules and regulations, to pay any amounts due the Cooperative or to cease any other noncompliance with his membership obligations, a person's membership shall automatically be suspended; and he shall not during such suspension be entitled to receive electric service from the Cooperative or to cast a vote. Payment of all amounts due the Cooperative, including any additional charges required for reinstatement, and/or cessation of any other noncompliance with his membership obligations within the final time limit provided in the specific notice to him or the Cooperative's generally publicized applicable rules and regulations shall automatically reinstate the membership. After reinstatement, the member shall be entitled to receive electric service from the Cooperative and to vote.

SECTION 2.02. Termination by Expulsion; Renewed Membership. Upon failure of a suspended member to be automatically reinstated to membership, as provided in Section 2.01, he may, without further notice, but only after a hearing before the Board of Directors if a hearing is requested by him, be expelled by resolution of the Board of Directors at any subsequently held regular or special meeting of the Board. After any finally effective expulsion of a member, he may not again become a member except upon new application therefor as provided in Sections 1.02 and 1.05. The Board of Directors, acting upon principles of general application in such cases, may establish such additional terms and conditions

for renewed membership as it determines to be reasonably necessary to assure the applicant's compliance with all his membership obligations.

SECTION 2.03. Termination by Withdrawal or Resignation. A member may withdraw from membership upon compliance with such generally applicable conditions as the Board of Directors shall prescribe and upon either (a) ceasing to (or, with the approval of the Board of Directors, resigning his membership in favor of a new applicant who also shall) own or directly occupy or use all premises being furnished electric service pursuant to his membership, or (b) except when the Board of Directors specifically waives such condition, abandoning totally and permanently the use of central station electric service on such premises.

SECTION 2.04. Termination by Death or Cessation of Existence; Continuation of Membership In Remaining or New Partners. Except as provided in Section 2.06, the death or cessation of existence of a member shall automatically terminate his membership. PROVIDED, that upon the dissolution for any reason of a partnership, or upon the death, withdrawal or addition of any individual partner, such membership shall continue to be held by such remaining and/or new partner(s) who continue to own or directly to occupy or use the premises being furnished electric service pursuant to such membership in the same manner and to the same effect as though such membership had never been held by different partners: PROVIDED FURTHER, that neither a withdrawing partner nor his estate shall be released from any debts then due the Cooperative.

SECTION 2.05. Effect of Termination. Upon the termination in any manner of a person's membership, he shall be entitled to a refund of any service security deposit paid the Cooperative, less any amounts due the Cooperative; but he shall not be released from any debts or other obligations due the Cooperative. Notwithstanding the suspension or expulsion of a member, as provided for in Sections 2.01 and 2.02, such suspension or expulsion shall not, unless the Board of Directors shall expressly so elect, entitle him to purchase from any other person any central station electric power and energy for use at the premises to which such service has been furnished by the Cooperative.

SECTION 2.06. Effect of Death, Separation or Divorce upon a Joint Membership. Upon the death of any person who is a party to the joint membership, such membership shall be held solely by the survivor, in the same manner and to the same effect as though such membership had never been joint: PROVIDED, that the estate of the decedent shall not be released from any debts due the Cooperative. Upon the separation or divorce of the holders of a joint

membership, such membership shall continue to be held solely by the person who continues to occupy or use the premises to which electric service is furnished, in the same manner and to the same effect as though such membership had never been joint: PROVIDED, that no such person shall be released from any debts due the Cooperative.

SECTION 2.07. Board Acknowledgment of Membership Termination; Acceptance of Members Retroactively. Upon the termination of a person's membership for any reason, the Board of Directors, as soon as practicable after such termination is made known to it, shall by appropriate resolution formally acknowledge such termination, effective as of the date on which the Cooperative ceased furnishing electric service to such person. Upon discovery that the Cooperative has been furnishing electric service to any person other than a member, it shall cease furnishing such service unless such person applies for, and the Board of Directors approves, membership retroactively to the date on which such person first began receiving such service, in which event the Cooperative, to the extent practicable, shall correct its membership and all related records accordingly.

ARTICLE III

MEETINGS OF MEMBERS

SECTION 3.01. Annual Meeting. For the purposes of announcing the election of directors, hearing and passing upon reports covering the previous fiscal year, and transacting such other business as may properly come before the meeting, the annual meeting of the members for 1998 and 1999 shall be held on May 1, 1999, and May 1 of each year thereafter, at such place on Hatteras Island, North Carolina, beginning at such hour, as the Board of Directors shall from year to year fix: PROVIDED, that, for cause sufficient to it, the Board of Directors may fix a different date for such annual meeting not more than thirty (30) days prior or subsequent to the day otherwise established for such meeting in this Section. A written report covering the 1997 fiscal year will be provided to the members at or prior to the annual meeting for 1998 and 1999.

SECTION 3.02. Special Meetings. Special meetings of the members may be called by resolution of the Board of Directors, or upon a written request signed by any three directors, or by not less than ten (10%) percent of the members, and it shall thereupon be the duty of the Secretary to cause notice of such meeting to be given as hereinafter provided in Section 3.03. Such meetings shall be

held at any place on Hatteras Island, North Carolina, on such date, not sooner than forty (40) days after the call or request for such meeting is made, and beginning at such hour as shall be designated by the Board of Directors.

SECTION 3.03. Notice of Member Meetings. Written or printed notice of the place, day and hour of the meeting and, in the case of a special meeting or of an annual meeting at which business requiring special notice is to be transacted, the purpose or purposes of the meeting shall be delivered to each member not less than thirty (30) days before the date of the meeting, by any reasonable means, by or at the direction of the President, the Secretary, or other officer or persons calling the meeting. Reasonable means of providing such notice shall include but not be limited to United States Postal Service mail, personal delivery, the Cooperative's monthly newsletter, or member service billings. No matter the carrying of which, as provided by law or by the Cooperative's Certificate of Incorporation or Bylaws requires the affirmative votes of at least a majority of the then-total members of the Cooperative shall be acted upon at any meeting of the members unless notice of such matter shall have been contained in the notice of the meeting. If mailed, such notice shall be deemed to be delivered when deposited in the United States Postal Service mail, addressed to the member at his address as it appears on the records of the Cooperative, with postage thereon prepaid and postmarked at least thirty (30) days before the meeting date. In making such computation, the date of the meeting shall not be counted. The incidental and non-intended failure of any member to receive such notice shall not invalidate any action which may be taken by the members at any such meeting, and the attendance in person of a member at any meeting of the members shall constitute a waiver of notice of such meeting unless such attendance shall be for the express purpose of objecting to the transaction of any business, or one or more items of business, on the grounds that the meeting shall not have been lawfully called or convened. Any member attending any meeting for the purpose of making such objection shall notify the Secretary at least ten (10) days prior to the meeting of his objection.

SECTION 3.04. Quorum. Business may not be transacted at any meeting of the members unless there are present in person at least fifty (50) of the Cooperative's members, except that, for the election of directors or amendment of the Cooperative's Certificate of Incorporation, the total number of ballots cast, including ballots received by mail, shall be counted for the purpose of determining the existence of a quorum. If less than a quorum is present at any meeting, a majority of those present in person may adjourn the meeting to another time and date not less than thirty-five (35) days later and to any place on Hatteras Island, North Carolina:

PROVIDED, that the Secretary shall notify any absent members of the time, date and place of such adjourned meeting by delivering notice thereof as provided in Section 3.03. At all meetings of the members, whether a quorum be present or not, the Secretary shall annex to the meeting minutes, or incorporate therein by reference, a list of those members who were registered as present in person.

SECTION 3.05. Voting. Each member who is not in a status of suspension, as provided for in Section 2.01, shall be entitled to vote upon each matter submitted to a vote at any meeting of the members. All questions shall be decided by a majority of the members voting thereon by mail, except as otherwise provided by law or by the Cooperative's Certificate of Incorporation or these Bylaws. Ballots must be received via mail by the Cooperative at its office or at such other address as may be designated by the Board of Directors. Ballots must be received at least ten (10) days prior to any special or annual meeting of the members.

SECTION 3.06. Proxies. Voting by proxies shall not be permitted.

SECTION 3.07. Credentials and Election Committee. The Board of Directors shall, at least ten (10) days before any meeting of the members, appoint a Credentials and Election Committee consisting of an uneven number of Cooperative members not less than five (5) who are not members of the Nominating Committee or existing Cooperative employees, agents, officers, directors or known candidates for director, and who are not close relatives (as hereinafter defined) or members of the same household thereof. In appointing the Committee, the Board shall have regard for the equitable representation of the several areas served by the Cooperative. The Committee shall elect its own chairman and secretary prior to the member meeting. It shall be the responsibility of the Committee to establish or approve the manner of conducting member registration and any ballot or other voting, to pass upon all questions that may arise with respect to the registration of members, to count all ballots or other votes cast in any election or in any matter, to rule upon the effect of any ballots or other vote irregularly or indecisively marked or cast, to rule upon all other questions that may arise relating to member voting and the election of directors (including but not limited to the validity of petitions of nomination or the qualifications of candidates and the regularity of the nomination and election of directors), and to pass upon any protest or objection filed with respect to any election or to conduct affecting the results of any election. In the exercise of its responsibility, the Committee shall have available to it the advice of counsel provided by the Cooperative. In the event a protest or objection is filed concerning any election, such protest or objection must be filed during, or within three (3) business

days following the adjournment of, the meeting in which the voting is conducted. The Committee shall thereupon be reconvened, upon notice from its chairman, not less than seven (7) days after such protest or objection is filed. The Committee shall hear such evidence as is presented by the protester(s) or objector(s), who may be heard in person, by counsel, or both, and any opposing evidence; and the Committee, by a vote of a majority of those present and voting, shall, within a reasonable time but not later than thirty (30) days after such hearing, render its decision, the result of which may be to affirm the election, to change the outcome thereof, or to set it aside. The Committee may not affirmatively act on any matter unless a majority of the Committee is present. The Committee's decision (as reflected by a majority of those actually present and voting) on all matters covered by this Section shall be final.

SECTION 3.08. Order of Business. The order of business at the annual meeting of the members and, insofar as practicable or desirable, at all other meetings of the members shall be essentially as follows:

- (1) Report on the number of members present in person in order to determine the existence of a quorum;
- (2) Reading of the notice of the meeting and proof of the due giving thereof, or of the waiver or waivers of notice of the meeting, as the case may be;
- (3) Reading of unapproved minutes of previous meetings of the members and the taking of necessary action thereon;
- (4) Presentation and consideration of reports of officers, directors and committees;
- (5) Announcement of results of election of directors; and
- (6) Adjournment.

Notwithstanding the foregoing, the Board of Directors may from time to time establish a different order of business for the purpose of assuring the earlier consideration of and action upon any item of business the transaction of which is necessary or desirable in advance of any other item of business: PROVIDED, that no business other than adjournment of the meeting to another time and place may be transacted until and unless the existence of a quorum is first established.

ARTICLE IV

DIRECTORS

SECTION 4.01. Number and General Powers. The business and affairs

of the Cooperative shall be managed by a Board of Directors consisting of seven (7) members -- five (5) directors from the five (5) Directorate Districts, and two (2) Directors at Large. The Board shall exercise all of the powers of the Cooperative except such as are by law or by the Cooperative's Certificate of Incorporation or Bylaws conferred upon or reserved to the members.

SECTION 4.02. Qualifications. No person shall be eligible to become or remain a director of the Cooperative who is a close relative of an incumbent director or of an employee of the Cooperative, or is an employee of the Cooperative, or who was employed by the Cooperative within five (5) years preceding his nomination, or is not a member of the Cooperative and receiving service therefrom at his primary residential abode. Such person must have been a member of the Cooperative permanently residing in the directoral district which he or she represents for a minimum of two (2) years prior to becoming a director from that district. No person shall be eligible to become or remain a director of, or to hold any other position of trust in, the Cooperative who is not at least eighteen (18) years of age or is in any way employed by or substantially financially interested in a competing enterprise, or a business selling electric energy or supplies to the Cooperative. Notwithstanding any of the foregoing provisions of this Section dealing with close relative relationships, no incumbent director shall lose eligibility to remain a director or to be re-elected as a director if he becomes a close relative of another incumbent director or of a Cooperative employee because of a marriage to which he was not a party.

Upon establishment of the fact that a nominee for director lacks eligibility under this Section or as may be provided elsewhere in these Bylaws, it shall be the duty of the Credentials and Election Committee to disqualify such nominee. Upon the establishment of the fact that any person being considered for, or already holding, a directorship or other position of trust in the Cooperative lacks eligibility under this Section, it shall be the duty of the Board of Directors to withhold such position from such person, or to cause him to be removed therefrom, as the case may be. Nothing contained in this Section shall, or shall be construed to, affect in any manner whatsoever the validity of any action taken at any meeting of the Board of Directors.

SECTION 4.03. Election. At or prior to each annual meeting of the members, directors shall be elected by secret written ballot by the members from among those eligible and qualified members who are natural persons. Directors shall be elected by a plurality of the votes cast. Drawing by lot shall resolve, where necessary, any tie votes.

SECTION 4.04. Tenure. Directors shall be so nominated and elected that one director from or with respect to each of Directorate Districts No. 1 and 4 shall be elected for three-year terms at or prior to an annual member meeting; one director from each of Directorate Districts No. 3 and 5 and one Director at Large shall be elected for three-year terms at or prior to the next succeeding annual member meeting; and one director from Directorate District No. 2, and one Director at Large shall be elected for three-year terms at or prior to the next succeeding annual member meeting. Only one Director at Large may be elected from any one District. Upon their election, directors shall, subject to the provisions of these Bylaws with respect to the removal of directors, serve until the annual meeting of the members of the year in which their terms expire or until their successors shall have been elected and shall have qualified. If for any reason an election of directors shall not be held at or prior to an annual meeting of the members duly fixed and called pursuant to these Bylaws, such election may be held at or prior to an adjournment of such meeting or at or prior to a subsequently held special or the next annual meeting of the members. Failure of an election for a given year shall allow the incumbents whose directorships would have been voted on to hold over only until the next election.

SECTION 4.05. Directorate Districts. The territory served by the Cooperative shall be divided into five (5) Directorate Districts. Each District shall be represented by one director. The Directorate Districts shall be as shown on the map of the Cooperative territory posted in the office of the Cooperative and attached to these Bylaws as Appendix I.

Notwithstanding the foregoing number of Districts, District descriptions and number of District Directors presently provided for in this Section and in other Sections of this Article IV, every year, the Board of Directors, no less than ninety (90) days prior to the earliest date on which the annual member meeting may be scheduled pursuant to these Bylaws to be held, shall review the Districts and Directorships. If the Board determines that the boundaries or number of Districts should be altered or that the number of District Directors should be increased or reduced, so as to correct any substantially inequitable factors regarding the residence of members, the number or the geographic location of Districts or the number of District Directors, the Board shall amend these Bylaws accordingly and may, after such amendments become effective, appoint any additional directors provided for by such amendments, and may fix their respective initial terms, not to exceed three years. The Board of Directors shall cause all such amendments and the names, addresses and initial terms of any such

newly appointed additional directors to be noticed in writing to the members not less than five (5) days prior to the date on which the Committee on Nominations for the next annual member meeting shall first convene, and shall also, in timely advance of such Committee meeting, inform the members of the names, addresses and telephone numbers of the members of the Nominating Committee and of the date, hour and place of that Committee's first meeting.

From and after the date of notice of amendments, these Bylaws shall have been effectively amended accordingly: PROVIDED, that any change so made by action of the Board shall be in full force and effect until at least the completion of the election of directors at or prior to the annual meeting of the members first held in accordance with such changes effectuated by the Board of Directors; AND PROVIDED FURTHER, that no such change shall become effective so as to compel the vacancy of any director's office prior to the time such director's term would normally expire unless such director consents thereto in writing.

SECTION 4.06. Nominations. It shall be the duty of the Board of Directors to appoint, not less than ninety (90) days before the date of a meeting of the members at which directors are to be elected, a Committee on Nominations, consisting of not less than five (5) members of the Cooperative, who are not existing Cooperative employees, agents, officers, directors or known candidates for director, who are not close relatives (as hereinafter defined) or members of the same household thereof, and who are so selected that each of the Cooperative's Directorate Districts shall have equitable representation thereon. The Committee shall prepare and post at the principal office of the Cooperative at least sixty (60) days before the meeting a list of nominations for directors to be elected, listing separately the nominee(s) with respect to each Directorate District and Director at Large from or with respect to which a director must, pursuant to this Article, be elected at the meeting. The Committee may include as many nominees for any director to be elected with respect to any Directorate District and Director at Large as it deems desirable. Any fifty (50) or more members of the Cooperative, acting together, may make additional nominations in writing over their signatures, listing the nominee(s) in like manner, not less than fifty-five (55) days prior to the meeting, and the Secretary shall post such nominations at the same place where the list of nominations made by the Committee is posted. The Secretary shall mail to the members with the notice of the date of the meeting, or separately, but at least thirty (30) days before the date of the meeting, a statement of the names and addresses of all nominee(s), from or with respect to each Directorate District and Director at Large from or with respect to which one or more directors must be elected, showing

clearly those nominated by the Committee and those nominated by petition, if any. Notwithstanding the provisions contained in this Section, failure to comply with any of such provisions shall not affect in any manner whatsoever the validity of any action taken by the Board of Directors after the election of directors.

SECTION 4.07. Voting for Directors; Validity of Board Action. In the election of directors, each member shall be entitled to cast the number of votes (but not cumulatively) which corresponds to the total number of directors to be elected, but no member may vote for more nominees than the number of directors that are to be elected from or with respect to any particular Directorate District or Director at Large. Ballots marked in violation of the foregoing restriction with respect to one or more Directorate Districts or Director at Large shall be invalid and shall not be counted with respect to such Directors at Large, District or Districts. Notwithstanding the provisions contained in this Section, failure to comply with any of such provisions shall not affect in any manner whatsoever the validity of any action taken by the Board of Directors after the election of directors.

SECTION 4.08. Removal of Directors by Members. Any member may bring one or more charge(s) for cause against any one or more director(s) and may request the removal of such director(s) by reason thereof by filing with the Secretary such charge(s) in writing, together with a petition signed by not less than ten (10%) percent of all the members of the Cooperative. The petition shall call for a special member meeting the stated purpose of which shall be to hear and act upon such charge(s). The petition shall state the name(s) and address(es) of the member(s) filing such charge(s), a verbatim statement of such charge(s) and the name(s) of the director(s) against whom such charge(s) is (are) being made. The petition shall be signed by each member in the same name as he is billed by the Cooperative and shall state the signatory's address. Notice of such charge(s), the name(s) of the director(s) against whom the charge(s) have been made, and of the member(s) filing the charge(s), and the purpose of the meeting, shall be contained in the notice of the meeting sent to the members not less than seven (7) days prior to the member meeting at which the matter will be acted upon. Such director(s) shall be informed in writing of the charge(s) at least twenty (20) days prior to the meeting of the members at which the charges are to be considered, and shall have an opportunity at the meeting to be heard in person, by witnesses, by counsel, or any combination of such, and to present evidence in respect of the charge(s); and the member(s) bringing the charge(s) shall have the same opportunity. The question of removal of such director(s) shall be considered and voted upon at such meeting. However, the question of the removal of a director shall not be

voted upon at all unless some evidence in support of the charge(s) against him shall have been presented during the meeting through oral statements, documents or otherwise.

SECTION 4.09. Vacancies. A vacancy occurring in the Board of Directors shall be filled by the Board of Directors. A Director thus elected shall serve out the unexpired term of the director whose office was originally vacated and until his successor is elected and qualified: PROVIDED, that such a director, except a Director at Large, shall be from or with respect to the same Directorate District as was the director whose office was vacated. The Board of Directors may BY A 3/4ths majority vote, remove a Director appointed by the Board for any reason.

SECTION 4.10. Compensation; Expenses. Directors shall, as determined by resolution of the Board of Directors, receive on a per diem basis a fixed fee, which may include insurance benefits, for attending meetings of the Board of Directors and, when such has had the prior approval of the Board of Directors for otherwise performing their duties. The fee or fees fixed for otherwise performing their duties need not be the same as the fee fixed for attending meetings of the Board of Directors. Directors shall also receive advancement or reimbursement of any travel and out-of-pocket expenses actually, necessarily and reasonably incurred, in performing their duties. No close relative of a director shall be employed by the Cooperative and no director shall receive compensation for serving the Cooperative in any other capacity, unless the employment of such relative or the service of such director is temporary and shall be specifically authorized by a vote of the Board of Directors upon their resolved determination that such was an emergency measure: PROVIDED, that a director who is also an officer of the Board, and who as such officer performs regular or periodic duties of a substantial nature for the Cooperative in its fiscal affairs, may be compensated in such amount as shall be fixed and authorized in advance of such service by the unanimous vote of the remaining directors; AND PROVIDED FURTHER, that an employee shall not lose eligibility to continue in the employment of the Cooperative if he becomes a close relative of a director because of a marriage to which he was not a party.

SECTION 4.11. Rules, Regulations, Rate Schedules and Contracts. The Board of Directors shall have power to make, adopt, amend, abolish and promulgate such rules, regulations, rate classifications, rate schedules, contracts, security deposits and any other types of deposits, payments or charges, including contributions in aid of construction, not inconsistent with law or the Cooperative's Certificate of Incorporation or Bylaws, as it may deem advisable for the management, administration and regulation of the business

and affairs of the Cooperative.

SECTION 4.12. Accounting System and Reports. The Board of Directors shall cause to be established and maintained a complete accounting system of the Cooperative's financial operations and condition, and shall, after the close of each fiscal year, cause to be made a full, complete and independent audit of the Cooperative's accounts, books and records reflecting financial operations during, and financial condition as of the end of, such year. A full and accurate summary of such audit reports shall be submitted to the members at or prior to the succeeding annual meeting of the members. The Board may authorize special audits, complete or partial, at any time and for any specified period of time.

SECTION 4.13. "Close Relative" Defined. As used in these Bylaws, "close relative" means a person who, by blood or in law, including step, half, foster and adoptive kin, is either a spouse, child, grandchild, parent, grandparent, brother, sister, aunt, uncle, nephew, or niece of the principal.

ARTICLE V

MEETINGS OF DIRECTORS

SECTION 5.01. Regular Meetings. A regular meeting of the Board of Directors shall be held, without notice, immediately after the adjournment of the annual meeting of the members, or as soon thereafter as conveniently may be, at such site as designated by the Board in advance of the annual member meeting. A regular meeting of the Board of Directors shall also be held at least bi-monthly at such date, time and place in Dare County, North Carolina, as the Board of Directors may provide by resolution. Such regular monthly meeting may be held without notice other than such resolutions fixing the date, time and place thereof, except when business to be transacted thereat shall require special notice: PROVIDED, that any director absent from any meeting of the Board at which such a resolution initially determines or makes any change in the date, time or place of a regular meeting shall be entitled to receive written notice of such determination or change at least five (5) days prior to the next meeting of the Board; AND PROVIDED FURTHER that, if a policy therefrom is established by the Board, the President may change the date, time or place of a regular monthly meeting for good cause and upon at least five (5) days' notice thereof to all directors.

SECTION 5.02. Special Meetings. Special meetings of the Board of

Directors may be called by Board resolution, by the President, or by any three (3) directors, and it shall thereupon be the duty of the Secretary to cause notice of such meeting to be given as hereinafter provided in Section 5.03. The Board, the President, or the directors calling the meeting shall fix the date, time and place for the meeting, which shall be held in Dare County, North Carolina, unless all directors consent to its being held in some other place in North Carolina or elsewhere. Special meetings, upon proper notice as otherwise provided in Section 5.03, may also be held via telephone conference call, without regard to the actual location of the directors at the time of such a telephone conference meeting, if all the directors consent thereto.

SECTION 5.03. Notice of Directors Meetings. Written notice of the date, time, place (or telephone conference call) and purpose or purposes of any special meeting of the Board of Directors and, when the business to be transacted there at shall require such, or any regular meeting of the Board of Directors shall be delivered to each director not less than five (5) days prior thereto, either personally or by mail, by or at the direction of the Secretary or, upon a default in this duty by the Secretary, by him or those calling it in the case of a special meeting or by any other director or officer in the case of any meeting whose date, time and place have already been fixed by Board resolution. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail, addressed to the director at his address as it appears on the records of the Cooperative, with first class postage thereon prepaid, and postmarked at least five (5) days prior to the meeting date. The attendance of a director at any meeting of the Board shall constitute a waiver of notice of such meeting unless such attendance shall be for the express purpose of objecting to the transaction of any business, or of one or more items of business, on the ground that the meeting shall not have been lawfully called or convened.

SECTION 5.04. Quorum. The presence in person of a majority of the directors in office shall be required for the transaction of business and the affirmative votes of a majority of the directors present and voting shall be required for any action to be taken: PROVIDED, that a director who by law or these Bylaws is disqualified from voting on a particular matter shall not, with respect to consideration of and action upon that matter, be counted in determining the number of directors in office or present; AND PROVIDED FURTHER, that, if less than a quorum be present at a meeting, a majority of the directors present may adjourn the meeting from time to time, but shall cause the absent directors to be duly and timely notified of the date, time and place of such adjourned meeting.

ARTICLE VI

OFFICERS; MISCELLANEOUS

SECTION 6.01. Number and Title. The officers of the Cooperative shall be a President, Vice President, Secretary and Treasurer, and such other officers as may be determined by the Board of Directors from time to time. The offices of Secretary and Treasurer may be held by the same person.

SECTION 6.02. Election and Term of Office. The four officers named in Section 6.01 shall be elected annually by and from the Board of Directors at the first meeting of the Board held after the annual meeting of the members. If the election of such officers shall not be held at such meeting, it shall be held as soon thereafter as conveniently may be. Each such officer shall hold office until the first meeting of the Board of Directors held after the succeeding annual meeting of the members or until his successor shall have been duly elected and shall have qualified, subject to the provisions of the Bylaws with respect to the removal of directors by the members and to the removal of officers by the Board of Directors. Any other officers may be elected by the Board from among such persons, and with such title, tenure, responsibility and authorities, as the Board of Directors may from time to time deem advisable.

SECTION 6.03. Removal. Any officer, agent or employee elected or appointed by the Board of Directors may be removed by the Board whenever in its judgment the best interests of the Cooperative will be served thereby.

SECTION 6.04. Vacancies. A vacancy in any office elected or appointed by the Board of Directors shall be filled by the Board of Directors for the unexpired portion of the term.

SECTION 6.05. President. The President shall --

(a) be the principal executive officer of the Cooperative and shall preside at all meetings of the Board of Directors, and, unless determined otherwise by the Board of Directors, at all meetings of the members.

(b) sign any deeds, mortgages, deeds of trust, notes, bonds, contracts or other instruments authorized by the Board of Directors to be executed, except in cases in which the signing and execution thereof shall be expressly delegated by the

Board of Directors or by these Bylaws to some other officer or agent of the Cooperative, or shall be required by law to be otherwise signed or executed; and

(c) in general, perform all duties incident to the office of President and such other duties as may be prescribed by the Board of Directors from time to time.

SECTION 6.06. Vice President. In the absence of the President, or in the event of his inability or refusal to act, the Vice President shall perform the duties of the President, and, when so acting, shall have all the powers of and be subject to all the restrictions upon the President; and shall perform such other duties as from time to time may be assigned to him by the Board of Directors.

SECTION 6.07. Secretary. The Secretary shall --

(a) keep, or cause to be kept, the minutes of meetings of the members and of the Board of Directors in one or more books provided for that purpose;

(b) see that all notices are duly given in accordance with these Bylaws or as required by law;

(c) be custodian of the corporate records and of the seal of the Cooperative and see that the seal of the Cooperative is affixed to all certificates of membership prior to the issue thereof and to all documents the execution of which, on behalf of the Cooperative under its seal, is duly authorized in accordance with the provisions of these Bylaws or as required by law;

(d) keep, or cause to be kept, a register of the name and post office or other mailing address of each member, which address shall be furnished to the Cooperative by such member;

(e) have general charge of the books of the Cooperative in which a record of the members is kept;

(f) keep on file at all times a complete copy of the Cooperative's Certificate of Incorporation and Bylaws, together with all amendments thereto, which copy shall always be open to the inspection of any member, and, at the expense of the Cooperative, furnish a copy of such documents and of all amendments thereto upon request to any member; and

(g) in general, perform all duties incident to the office of Secretary and such other duties as from time to time may be assigned to him by the Board of Directors.

SECTION 6.08. Treasurer. The Treasurer shall --

(a) have charge and custody of and be responsible for all funds and securities of the Cooperative;

(b) receive and give receipts for monies due and payable to

the Cooperative from any source whatsoever, and deposit or invest all such monies in the name of the Cooperative in such bank or banks or securities as shall be selected in accordance with the provisions of these Bylaws; and

(c) in general perform all the duties incident to the office of Treasurer and such other duties as from time to time may be assigned to him by the Board of Directors.

SECTION 6.09. Delegation of Officers' Responsibilities.

Notwithstanding the duties, responsibilities and authorities of the officers hereinbefore provided in Sections 6.05, 6.06, 6.07 and 6.08, the Board of Directors by resolution may, except as otherwise limited by law, delegate, wholly or in part, the responsibility and authority for, and the regular or routine administration of, one or more of each such officer's such duties to one or more agents, other officers or employees of the Cooperative who are not directors. To the extent that the Board does so delegate with respect to either such officer, that officer as such shall be released from such duties, responsibilities and authorities.

SECTION 6.10. General Manager; Executive Vice President. The Board of Directors may appoint a general manager, who may be, but who shall not be required to be, a member of the Cooperative, and who also may be designated Executive Vice President. He shall perform such duties as the Board of Directors may from time to time require and shall exercise such authority as the Board of Directors may from time to time vest in him.

SECTION 6.11. Bonds. The Board of Directors shall require the Treasurer and any other officer, agent or employee of the Cooperative charged with responsibility for the custody of any of its funds or property to give bond in such sum and with such surety as the Board of Directors shall determine. The Board of Directors in its discretion may also require any other officer, agent or employee of the Cooperative to give bond in such amount and with such surety as it shall determine. The costs of all such bonds shall be borne by the Cooperative.

SECTION 6.12. Compensation; Indemnification. The compensation, if any, of any officer, agent or employee who is also a director or close relative of a director shall be determined as provided in Section 4.10 of these Bylaws, and the powers, duties and compensation of any other officers, agents and employees shall be fixed or a plan therefor approved by the Board of Directors. The Cooperative shall indemnify present and former directors, officers, including the General Manager (or, if so titled, the Executive Vice President) agents and employees against liability with respect to their acts or omissions on behalf of or relating to the Cooperative

and the cost of defending against such liability, including reasonable attorneys' fees, to the fullest extent permitted by law, including, without limitation, indemnification as provided by N.C.G.S. § 117-46. The Cooperative shall purchase insurance in reasonable amounts to cover such liabilities, fees, and costs.

SECTION 6.13. Reports. The officers of the Cooperative shall submit at each annual meeting of the members reports covering the business of the Cooperative for the previous fiscal year. Such reports shall set forth the condition of the Cooperative at the close of such fiscal year.

ARTICLE VII

CONTRACTS, CHECKS AND DEPOSITS

SECTION 7.01. Contracts. Except as otherwise provided by law or these Bylaws, the Board of Directors may authorize any Cooperative officer, agent or employee to enter into any contract or execute and deliver any instrument in the name and on behalf of the Cooperative, and such authority may be general or confined to specific instances.

SECTION 7.02. Checks, Drafts, etc. All checks, drafts or other orders for the payment of money, and all notes, bonds or other evidences of indebtedness, issued in the name of the Cooperative, shall be signed or countersigned by such officer, agent or employee of the Cooperative and in such manner as shall from time to time be determined by resolution of the Board of Directors.

SECTION 7.03. Deposits; Investments. All funds of the Cooperative shall be deposited or invested from time to time in the credit of the Cooperative in such bank or banks or in such financial securities or institutions as the Board of Directors may select.

ARTICLE VIII

NON-PROFIT OPERATION

SECTION 8.01. Interest or Dividends on Capital Prohibited. The Cooperative shall at all times be operated on a cooperative non-profit basis for the mutual benefit of its patrons. No interest or dividends shall be paid or payable by the Cooperative on any capital furnished by its patrons.

SECTION 8.02. Patronage Capital in Connection with Furnishing Electrical Energy. In the furnishing of electric energy the Cooperative's operations shall be so conducted that all patrons will, through their patronage, furnish capital for the Cooperative. In order to induce patronage and to assure that the Cooperative will operate on a nonprofit basis, the Cooperative is obligated to account on a patronage basis to all its patrons for all amounts received and receivable from the furnishing of electric energy in excess of operating costs and expenses properly chargeable against the furnishing of electric energy. All such amounts in excess of operating costs and expenses at the moment of receipt by the Cooperative are received with the understanding that they are furnished by the patrons as capital. The Cooperative is obligated to pay by credits to a capital account for each patron all such amounts in excess of operating costs and expenses. The books and records of the Cooperative shall be set up and kept in such a manner that at the end of each fiscal year the amount of capital, if any, so furnished by each patron is clearly reflected and credited in an appropriate record to the capital account of each patron, and the Cooperative shall within a reasonable time after the close of the fiscal year notify each patron of the amount of capital so credited to his account: PROVIDED, that individual notices of such amounts furnished by each patron shall not be required if the Cooperative notifies all patrons of the aggregate amount of such excess and provides a clear explanation of how each patron may compute and determine for himself the specific amount of capital so credited to him. All such amounts credited to the capital account of any patron shall have the same status as though they had been paid to the patron in cash in pursuance of a legal obligation to do so and the patron had then furnished the Cooperative corresponding amounts for capital.

All other amounts received by the Cooperative from its operations in excess of costs and expenses shall, insofar as permitted by law, be (a) used to offset any losses incurred during the current or any prior fiscal year and (b) to the extent not needed for that purpose, allocated to its patrons on a patronage basis, and any amount so allocated shall be included as a part of the capital credited to the accounts of patrons, as herein provided.

In the event of dissolution or liquidation of the Cooperative, after all outstanding indebtedness of the Cooperative shall have been paid, outstanding capital credits shall be retired without priority on a pro rata basis before any payments are made on account of property rights of members: PROVIDED, that insofar as gains may at that time be realized from the sale of any appreciated asset, such gains shall be distributed to all persons who were patrons during the period the asset was owned by the Cooperative in

proportion to the amount of business done by such patrons during that period insofar as is practicable, as determined by the Board of Directors, before any payments are made on account of property rights of members. If, at any time prior to dissolution or liquidation, the Board of Directors shall determine that the financial condition of the Cooperative will not be impaired thereby, the capital then credited to patrons' accounts may be retired in full or in part: PROVIDED, that the Board of Directors shall have the power to adopt rules providing for the separate retirement of that portion ("power supply or other service or supply portion") of capital credited to the accounts of patrons which corresponds to capital credited to the account of the Cooperative by an organization furnishing power supply or any other service or supply to the Cooperative. Such rules shall (a) establish a method for determining the portion of such capital credited to each patron for each applicable fiscal year, (b) provide for separate identification on the Cooperative's books of such portions of capital credited to the Cooperative's patrons, (c) provide for appropriate notifications to patrons with respect to such portions of capital credited to their accounts and (d) preclude a general retirement of such portions of capital credited to patrons for any fiscal year prior to the general retirement of other capital credited to patrons for the same year or of any capital credited to patrons for any prior fiscal year.

Capital credited to the account of each patron shall be assignable only on the books of the Cooperative pursuant to written instructions from the assignor and only to successors in interest or successors in occupancy in all or a part of such patron's premises served by the Cooperative, unless the Board of Directors, acting under policies of general application, shall determine otherwise.

Notwithstanding any other provisions of these Bylaws, the Board of Directors shall, at its discretion, have the power at any time upon the death of any patron, who was a natural person or if as so provided for in the preceding paragraph, upon the death of an assignee of the capital credits of a patron, which assignee was a natural person), if the legal representatives of his estate shall request in writing that the capital credited to such patron be retired prior to the time such capital would otherwise be retired under the provisions of the Bylaws, to retire such capital immediately upon such terms and conditions as the Board of Directors, acting under policies of general application to situations of like kind, and such legal representatives, shall agree upon: PROVIDED, however, that the financial condition of the Cooperative will not be impaired thereby. The Cooperative, before retiring any capital credited to any patron's account, shall deduct

therefrom any amount owing by such patron to the Cooperative, together with interest thereon at the North Carolina legal rate on judgments in effect when such amount became overdue, compounded annually.

SECTION 8.03. Patronage Refunds in Connection with Furnishing Other Services. In the event that the Cooperative should engage in the business of furnishing goods or services other than electric energy, all amounts received and receivable therefrom which are in excess of costs and expenses properly chargeable against the furnishing of such goods and services shall, insofar as permitted by law, be prorated annually on a patronage basis and returned to those patrons from whom such amounts were obtained at such time and in such order of priority as the Board of Directors shall determine.

Section 8.04. Patronage Capital in Connection with Extraordinary Items. In the event that the Cooperative receives amounts from any other sources which are treated as extraordinary items for accounting purposes in accordance with generally accepted accounting principles consistently applied, all such amounts shall, insofar as permitted by law, be allocated as capital credits to former and current members of the Cooperative as the Board of Directors, in its sole discretion, shall determine.

ARTICLE IX

WAIVER OF NOTICE

Any member or director may waive, in writing, any notice of meetings required to be given by these Bylaws.

ARTICLE X

DISPOSITION AND PLEDGING OF PROPERTY; DISTRIBUTION OF SURPLUS ASSETS ON DISSOLUTION

SECTION 9.01. Disposition and Pledging of Property. (a) Not inconsistently with the provisions of subsection (b) hereof, the Cooperative shall not sell, mortgage, lease or otherwise encumber or dispose of any of its property (other than merchandise and property which lie within the limits of an incorporated city or town, which shall represent not in excess of ten (10%) percent of the total value of the Cooperative's assets, or which in the

judgment of the Board of Directors are not necessary or useful in operating the Cooperative) unless authorized so to do by the votes of at least two-thirds of its total membership and by the consent of the holders of seventy-five (75%) percent in amount of the Cooperative's outstanding bonds, except that the members of the Cooperative may, by the affirmative majority of the votes cast in person at any meeting of the members, delegate to the Board of Directors the power and authority (1) to borrow monies from any source and in such amounts as the Board may from time to time determine and (2) to mortgage or otherwise pledge or encumber any or all of the Cooperative's property or assets as security therefor.

SECTION 9.02. Distribution of Surplus Assets on Dissolution. Upon the Cooperative's dissolution, any assets remaining after all liabilities or obligations of the Cooperative have been satisfied and discharged shall, to the extent practicable as determined by the Board of Directors and not inconsistently with the provisions of the third paragraph of Section 8.02 of these Bylaws, be distributed without priority among all persons who are or who have been members of the Cooperative for any period during the seven years next preceding the date of the filing of the certificate of dissolution, on the basis that their respective patronage during such period bears to the total receipts of the Cooperative during such period: PROVIDED, HOWEVER, that, if in the judgment of the Board the amount of such surplus is too small to justify the expense of making such distribution, the Board may, in lieu thereof, donate, or provide for the donation of, such surplus to one or more nonprofit charitable or educational organizations that are exempt from Federal income taxation.

ARTICLE XI

FISCAL YEAR

The fiscal year of the Cooperative shall begin on the first day of January of each year and end on the last day of December of the same year.

ARTICLE XII

RULES OF ORDER

Parliamentary procedure at all meetings of the members, of the Board of Directors, of any committee provided for in these Bylaws and of any other committee of the members or Board of Directors which may from time to time be duly established shall be governed by the most recent edition of Robert's Rules of Order, except to the extent such procedure is otherwise determined by law or by the Cooperative's Certificate of Incorporation or Bylaws.

ARTICLE XIII

SEAL

The Corporate seal of the Cooperative shall be in the form of a circle and shall have inscribed thereon the name of the Cooperative and the words "Corporate Seal, North Carolina."

ARTICLE XIV

AMENDMENTS

These Bylaws may be altered, amended or repealed by the affirmative vote of not less than a majority of the total directors in office, at any regular or special Board meeting, provided the notice of such meeting shall have contained a copy of the proposed alteration, amendment or repeal, or an accurate summary explanation thereof.