

January 1, 2032	4,666,667
January 1, 2033	4,666,667
January 1, 2034	4,666,667
January 1, 2035	4,666,667
January 1, 2036	4,666,667
January 1, 2037	4,666,667
January 1, 2038	4,666,667
January 1, 2039	4,666,667
January 1, 2040 ⁽¹⁾	4,666,657

⁽¹⁾ The final maturity date of such Series 2009B Bonds.

Section 2.4 Optional Prepayments and Make-Whole Amount. The Company may, at its option, upon notice as provided below, prepay at any time all, or from time to time any part of, the Series 2009B Bonds, in an amount not less than 3% of the aggregate principal amount of the Series 2009B Bonds then outstanding in the case of a partial prepayment, at 100% of the principal amount so prepaid, and the Make-Whole Amount determined for the prepayment date with respect to such principal amount. The Company will give each 2009B Holder written notice of each optional prepayment under this Section 2.4 not less than 30 days and not more than 60 days prior to the date fixed for such prepayment. Each such notice shall specify such date (which shall be a Business Day), the aggregate principal amount of the Series 2009B Bonds to be prepaid on such date, the principal amount of each Series 2009B Bond held by such 2009B Holder to be prepaid (determined in accordance with Section 2.5), and the interest to be paid on the prepayment date with respect to such principal amount being prepaid, and shall be accompanied by an Officer's Certificate as to the estimated Make-Whole Amount due in connection with such prepayment (calculated as if the date of such notice were the date of the prepayment), setting forth the details of such computation. Two Business Days prior to such prepayment, the Company shall deliver to each 2009B Holder an Officer's Certificate specifying the calculation of such Make-Whole Amount as of the specified prepayment date. The Company shall contemporaneously deliver a copy of such notice and Officer's Certificate to the Trustee.

Section 2.5 Allocation of Partial Prepayments. In the case of each partial prepayment of the Series 2009B Bonds, the principal amount of the Series 2009B Bonds to be prepaid shall be allocated among all of the Series 2009B Bonds at the time outstanding in proportion, as nearly as practicable, to the respective unpaid principal amounts thereof not theretofore called for prepayment.

Section 2.6 Payment of Make-Whole Amount Upon Acceleration. Upon the occurrence of an Event of Default, if the outstanding principal amount of the Series 2009B Bonds shall have been declared or otherwise become due and payable immediately pursuant to and in accordance with the Indenture then, in addition to paying each 2009B Holder the entire unpaid principal amount of its Series 2009B Bonds and all accrued and unpaid interest thereon (including, but not limited to, interest accrued thereon at the Default Rate), the Company shall calculate and pay to each 2009B Holder (to the full extent permitted by applicable law) an amount equal to the Make-Whole Amount determined in respect of such principal amount. The Company acknowledges that each 2009B Holder has the right to maintain its investment in the Series 2009B Bonds free from repayment by the Company (except as herein and in the Indenture

CERTIFIED RESOLUTION

On a motion made and seconded, the following was unanimously adopted by the Board of Directors of South Texas Electric Cooperative, Inc. (STEC).

WHEREAS, STEC's revised tariff was presented to the Board of Directors; and,

WHEREAS, the tariff includes a new Preliminary Statement, Wholesale Transmission Service schedule, the Distribution Level Wholesale Transmission Service schedule, and Rules and Regulations; and,

WHEREAS, it is required that the proposed tariff be filed at the PUC for its approval prior to applying the rates and policies; and,

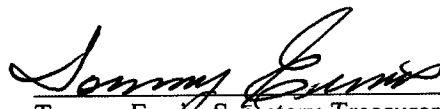
WHEREAS, it is recommended that the Board of Directors approve the tariff and direct the General Manager to authorize minor corrections, if necessary; and,

WHEREAS, it is recommended that the Board of Directors approve the use of a Debt Service Coverage ratio (DSC) of 1.50 in the calculation of the Wholesale Transmission Service and the Distribution Level Wholesale Transmission Service rates;

THEREFORE BE IT HEREBY RESOLVED, that the South Texas Electric Cooperative, Inc. Board of Directors does hereby approve the proposed tariff and the use of a 1.5 DSC in the calculation of the Wholesale Transmission Service and Distribution Level Wholesale Transmission Service rates, and directs the General Manager to authorize minor corrections to the tariff, if necessary.

I, Tommy Ermis, Secretary-Treasurer of South Texas Electric Cooperative, Inc., do hereby certify that the foregoing is a true copy of the Resolution passed by the Board of Directors of said Corporation at its meeting held on the 24th day of JANUARY 2013, at the Headquarters Complex, Nursery, Texas, at which meeting a quorum was present.

IN WITNESS WHEREOF, I have set my hand and affixed the seal of the Cooperative, this 24th day of JANUARY 2013.



Tommy Ermis, Secretary-Treasurer
Board of Directors
South Texas Electric Cooperative, Inc.

TEXAS 148 SOUTH
SOUTH TEXAS ELECTRIC COOPERATIVE, INC.
NURSERY, TEXAS
Financial Statements
December 31, 2012 and 2011

TEXAS 148 SOUTH
SOUTH TEXAS ELECTRIC COOPERATIVE, INC.
NURSERY, TEXAS

Financial Statements
December 31, 2012 and 2011

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BUMGARDNER, MORRISON & COMPANY, L.L.P.

BMC

CERTIFIED PUBLIC ACCOUNTANTS

JOSEPH B. BUMGARDNER, CPA
(1911-2002)
JACK R. MORRISON, SR., CPA
(1922-1997)

MEMBERS:
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
TEXAS SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS
AICPA PRIVATE COMPANIES PRACTICE SECTION
AICPA TAX DIVISION

March 15, 2013

CHRISTOPHER E. KREJCI, CPA
JEROME G. KOTZUR, CPA
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PAULA G. LESKE, CPA
MICHAEL E. WENSKE, CPA

JACK C. FITZGERALD, CPA
JACK R. MORRISON, JR., CPA

Independent Auditors' Report

Board of Directors
South Texas Electric Cooperative, Inc.
Nursery, Texas

We have audited the accompanying financial statements of South Texas Electric Cooperative, Inc. (the Cooperative or STEC), which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of revenue and patronage capital, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risk of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of South Texas Electric Cooperative, Inc. as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Bumgardner, Morrison + Company, LLP

Balance Sheets
December 31, 2012 and 2011

	2012	2011
<u>Assets</u>		
Electric Plant	\$ 820,274,660	\$ 698,174,759
Other Assets and Investments in Associated Organizations	70,265,597	68,150,099
Current Assets		
Cash and cash equivalents	31,638,024	38,420,657
Accounts receivable - member cooperatives	24,547,827	23,250,536
Accounts receivable - other	8,900,829	4,782,794
Fuel stock inventory	916,323	914,079
Materials and supplies inventory	17,668,049	10,287,487
Other current and accrued assets	13,857,305	15,140,904
Total Current Assets	97,528,357	92,796,457
Deferred Assets		
Deferred charges	40,428,597	21,854,882
Total Deferred Assets	40,428,597	21,854,882
Total Assets	\$ 1,028,497,211	\$ 880,976,197
<u>Equities and Liabilities</u>		
Equities		
Memberships	\$ 450	\$ 450
Patronage capital	164,189,361	140,542,375
Other equities	488	488
Total Equities	164,190,299	140,543,313
Long-Term Debt		
Notes and bonds payable, net of current maturities	608,568,518	632,795,542
Total Long-Term Debt	608,568,518	632,795,542
Current Liabilities		
Current maturities of long-term debt	23,545,176	21,990,860
Lines of credit	155,000,000	31,000,000
Accounts payable	50,358,866	32,359,025
Other current and accrued liabilities	18,924,727	19,105,427
Total Current Liabilities	247,828,769	104,455,312
Deferred Liabilities		
Deferred credits	7,909,625	3,182,030
Total Deferred Liabilities	7,909,625	3,182,030
Total Equities and Liabilities	\$ 1,028,497,211	\$ 880,976,197

Statements of Revenue and Patronage Capital
Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating Revenues		
Electric energy revenue - members	\$ 309,316,330	\$ 306,801,820
Electric energy revenue - other	324,940	772,457
Transmission revenue	11,273,036	12,271,549
Other operating revenue and income	<u>14,714</u>	<u>14,715</u>
Total Operating Revenues	<u>320,929,020</u>	<u>319,860,541</u>
Operating Expenses		
Operating expense		
Production (excluding fuel)	6,348,855	6,052,470
Production - fuel	20,403,235	35,012,363
Other power supply	189,007,579	176,987,156
Transmission	5,645,405	5,044,706
Distribution	2,114,234	2,549,175
Customer accounts and sales	65,750	63,276
Administrative and general	5,725,923	5,412,559
Maintenance expense		
Production	5,500,147	7,075,775
Transmission	5,924,039	6,331,578
Distribution	1,208,796	938,974
General plant	873,329	686,616
Depreciation	22,971,686	21,739,674
Taxes	<u>4,158,755</u>	<u>3,785,076</u>
Total Operating Expenses	<u>269,947,733</u>	<u>271,679,398</u>
Operating Margins Before Fixed Charges	50,981,287	48,181,143
Fixed Charges		
Interest expense	31,124,639	31,271,794
Other deductions	<u>1,479,813</u>	<u>800,130</u>
Total Fixed Charges	<u>32,604,452</u>	<u>32,071,924</u>
Operating Margins After Fixed Charges	18,376,835	16,109,219
Generation & Transmission and Other Capital Credits	2,942,280	3,405,712
Non-Operating Margins		
Interest income	1,904,798	1,811,267
Other non-operating income (expense)	424,020	542,459
Gain (loss) on the sale of property, net	<u>(947)</u>	<u>(2,088)</u>
Total Non-Operating Margins	<u>2,327,871</u>	<u>2,351,638</u>
Net Margins	23,646,986	21,866,569
Patronage Capital - Beginning of Year	<u>140,542,375</u>	<u>118,675,806</u>
Patronage Capital - End of Year	<u>\$ 164,189,361</u>	<u>\$ 140,542,375</u>

Statements of Cash Flows
Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash Flows From Operating Activities		
Cash received from customers	\$ 320,665,309	\$ 325,885,421
Cash paid to suppliers and employees	(220,682,426)	(248,396,114)
Interest received	1,886,333	1,817,509
Interest paid	(30,995,707)	(31,271,794)
Taxes paid	(4,158,754)	(3,788,208)
Net Cash Provided by (Used in) Operating Activities	<u>66,714,755</u>	<u>44,246,814</u>
Cash Flows From Investing Activities		
Construction and acquisition of plant	(169,237,280)	(34,213,186)
Plant removal costs	(5,986,184)	(6,084,919)
Materials salvaged from retirements	6,732,640	7,395,338
Proceeds from sale of fixed assets	100,970	19,170
Cash received on capital credits and notes receivable	638,106	788,222
(Increase) decrease in inventory	(7,382,806)	(1,645,897)
(Increase) decrease in NRUCFC certificates and other investments	309,874	352,039
Net Cash Provided by (Used in) Investing Activities	<u>(174,824,680)</u>	<u>(33,389,233)</u>
Cash Flows From Financing Activities		
Repayments of long-term debt	(22,672,708)	(9,670,132)
Net borrowings (repayments) on revolving lines of credit	124,000,000	11,000,000
Net Cash Provided by (Used in) Financing Activities	<u>101,327,292</u>	<u>1,329,868</u>
Net Increase (Decrease) in Cash	(6,782,633)	12,187,449
Cash and Cash Equivalents at Beginning of Year	<u>38,420,657</u>	<u>26,233,208</u>
Cash and Cash Equivalents at End of Year	<u>\$ 31,638,024</u>	<u>\$ 38,420,657</u>

(Continued)

Statements of Cash Flows, Continued
Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<u>Reconciliation of Net Margins to Net Cash Provided by Operating Activities</u>		
Net Margins	\$ 23,646,986	\$ 21,866,569
Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities		
Depreciation and amortization	24,260,669	21,911,600
Depreciation charged to clearing accounts	600,722	534,789
(Increase) decrease in ERCOT deposits	(121,199)	(4,034,323)
Non-cash income - capital credits received	(2,942,280)	(3,393,135)
(Increase) decrease in		
Accounts receivable - member cooperatives	(1,297,291)	437,805
Accounts receivable - other	(4,118,035)	(1,032,034)
Other current and accrued assets	1,283,599	(6,577,820)
Deferred debits other than amortization	2,854,848	2,087,365
Increase (decrease) in		
Accounts payable	17,999,841	11,460,257
Other current and accrued liabilities	(180,700)	187,859
Deferred credits	4,727,595	797,882
Net Cash Provided By Operating Activities	<u>\$ 66,714,755</u>	<u>\$ 44,246,814</u>

Supplemental Schedule of Noncash Operating Activities

Capital Credits Received	\$ 2,942,280	\$ 3,393,135
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Supplemental Schedule of Noncash Investing and Financing Activities

Abandonment of Coleto Creek Project	\$ 22,556,382	\$ -
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Notes to Financial Statements
December 31, 2012 and 2011

Note 1 Summary of Significant Accounting Policies

This summary of significant accounting policies of South Texas Electric Cooperative, Inc. (the Cooperative or STEC) is presented to assist in understanding the Cooperative's financial statements. The financial statements and notes are representations of the Cooperative's management who is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Nature of Business

The Cooperative is a generating and transmission electric cooperative selling electric energy primarily to eight member distribution cooperatives in south Texas.

Electric Plant

Purchases, construction, trade-ins, retirements, and sales of assets are recorded in accordance with industry standards and generally accepted accounting principles.

Depreciation is calculated on the straight-line method designed to amortize the cost of various classes of depreciable assets over their estimated useful lives.

Investments

The investments in associated organizations are recorded at cost.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, cash deposited with banks, and commercial paper with maturities of 90 days or less.

Accounts Receivable

The Cooperative's receivables are primarily from its member distribution cooperatives and other electric utility cooperatives and companies. No allowance for uncollectible receivables is considered necessary as these receivables are settled monthly.

Inventories

Inventories are valued at lower of cost or market using the weighted average method.

Note 1 Summary of Significant Accounting Policies, Continued

Income Taxes

Prior to the year 2000, the Cooperative met the requirements to be exempt from federal income tax under section 501(c)(12) of the Internal Revenue Code. From 2000 through 2004, the Cooperative failed to meet these requirements and was required to file a corporate federal income tax return. Effective January 1, 2005, Internal Revenue Service regulations were revised, and the Cooperative regained tax-exempt status.

Patronage Capital

Amounts received by the Cooperative for electric energy in excess of the related costs of service are credited to members/patrons as capital contributions. Retirements of patronage capital are made on a first-in, first-out basis when warranted by financial circumstances.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reclassifications

Certain amounts in the prior year's financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

Subsequent events

Management has evaluated subsequent events through March 15, 2013, the date the financial statements were available to be issued.

Note 2 Assets Pledged

As of December 31, 2012 and 2011, substantially all assets are pledged as security for the notes payable to National Rural Utilities Cooperative Finance Corporation (NRUCFC) and the First Mortgage Bonds, Series 2009B.

Note 3 Electric Plant and Depreciation Rates and Procedures

Listed below are the major classes of the electric plant as of December 31, 2012 and 2011:

	2012	2011
Intangible Plant	\$ 9,544	\$ 9,544
Steam Generation Plant	68,680,615	68,680,615
Other Generation Plant	271,077,928	272,185,050
Transmission Plant	259,416,412	240,615,534
Distribution Plant	188,360,310	169,124,771
General Plant	45,420,655	40,164,052
Electric Plant in Service	832,965,464	790,779,566
Construction Work in Progress	177,796,555	80,034,194
Total Electric Plant in Service and Construction Work in Progress	1,010,762,019	870,813,760
Less Accumulated Depreciation and Amortization	(190,487,359)	(172,639,001)
Total Electric Plant	<u>\$ 820,274,660</u>	<u>\$ 698,174,759</u>

Depreciation has been computed on the straight-line method at the following rates:

	2012	2011
Electric Plant (Composite Rates)		
Intangible plant	-%	-%
Steam generation plant	2.64	2.64
Other generation plant	.876 & 3.00	.876 & 3.00
Combined cycle	3.00	3.00
Portable generators	3.00	3.00
Transmission plant	2.75	2.75
Distribution plant	2.75 & 2.88	2.75 & 2.88
General Plant		
Structures and improvements	3.00	3.00
Office furniture and equipment	6.00 - 20.00	6.00 - 20.00
Transportation equipment	23.00	23.00
Stores equipment	6.00	6.00
Tools, shop and garage equipment	6.00	6.00
Laboratory equipment	6.00	6.00
Power operated equipment	10.00	10.00
Communication equipment	6.00	6.00
Other general plant	6.00	6.00

Note 3 Electric Plant and Depreciation Rates and Procedures, Continued

Distribution of depreciation charged was as follows:

	2012	2011
Charged to Operations	\$ 22,971,686	\$ 21,739,674
Charged to Competitive Retailer	161,164	171,926
Charged to Clearing Accounts	600,722	534,789
Total Depreciation Expense	<u>\$ 23,733,572</u>	<u>\$ 22,446,389</u>

Note 4 Other Assets and Investments in Associated Organizations

Investments in associated organizations consist primarily of capital credits allocated to the Cooperative and are subject to retirement in accordance with the provisions of the bylaws of the respective organizations. The Cooperative's investments were comprised of the following at December 31, 2012 and 2011:

	2012	2011
Capital Credits and Member Securities		
San Miguel Electric Cooperative, Inc.	\$ 21,524,631	\$ 19,850,053
National Rural Utilities Cooperative Finance Corporation (NRUCFC)	42,063,755	41,828,836
Other	348,636	313,397
Deposit for ERCOT Collateral	6,024,623	5,903,423
Deferred Compensation Investments	303,952	254,390
Total Other Assets and Investments In Associated Organizations	<u>\$ 70,265,597</u>	<u>\$ 68,150,099</u>

Note 5 Cash and Cash Equivalents

Cash and temporary cash investments at December 31, 2012 and 2011, consisted of the following:

	2012	2011
Cash - General Funds	\$ 29,637,975	\$ 25,420,657
Cash - Daily Fund	2,000,049	13,000,000
Total Cash and Cash Equivalents	<u>\$ 31,638,024</u>	<u>\$ 38,420,657</u>

Note 6 Other Current and Accrued Assets

Other current and accrued assets at December 31, 2012 and 2011, consisted of the following:

	2012	2011
Cash - Escrow Fund	\$ 6,654,850	\$ 6,627,731
Prepaid Insurance	726,363	603,849
Congestion Revenue Rights	5,721,663	6,820,626
Other Prepayments	293,065	645,799
Interest & Dividends Receivables	461,364	442,899
Total Other Current and Accrued Assets	<u>\$ 13,857,305</u>	<u>\$ 15,140,904</u>

Cash – Escrow Fund. Due to the extensive oil and gas drilling activity in the service territory in 2010, STEC has agreed to hold \$6,586,000 paid by a gas exploration company as security for third parties to begin construction of transmission facilities necessary to service two of STEC's future substations.

The cash held in escrow plus interest does not and never will belong to STEC because the money will be returned to the gas company if:

1. The Public Utility Commission of Texas (PUCT) allows transmission providers, through a Transmission Cost of Service (TCOS) proceeding to recover the transmission investment through their regulated charges for transmission service, or
2. The transmission providers notify STEC in writing they will not require STEC to reimburse them for the transmission investment that was necessary to service the substations.

If the transmission providers require STEC, in writing, to reimburse them for all or any part of the transmission investment then the amount equal to that required by the transmission providers shall be classified as a non-refundable contribution in aid of construction and shall not be returned to the gas company, but STEC will use the funds to reimburse the transmission providers.

Since these funds will never belong to STEC, the Cooperative has set up a separate money market cash management account at First Victoria National Bank. An equal amount is recorded in a liability account. The balance of funds held in escrow as of December 31, 2012 and 2011 are \$6,654,850 and \$6,627,731, respectively.

Congestion Revenue Rights. Congestion Revenue Rights (CRRs) are financial instruments that result in a charge or a payment to the owner of the CRR when the ERCOT transmission grid is congested. CRRs may be used as either a financial hedge or a financial investment. When used as a hedge, a CRR locks in the price of congestion at the purchase price of the CRR. When purchased as an investment, it may be used as a financial tool to speculate whether the congestion rent will be greater than the purchase price.

Prepayment on Congestion Revenue Rights was \$5,721,663 and \$6,820,626, as of December 31, 2012 and 2011, respectively.

Note 7 Deferred Charges

Following is a summary of amounts recorded as deferred charges as of December 31, 2012 and 2011:

	2012	2011
Premium on Refinanced Notes	\$ 6,502,671	\$ 6,829,164
Unsecured Financing Costs	800,590	1,024,010
Retirement Plan Benefit Level Increase	1,023,105	1,101,805
Hot Section Replacement	-	1,029,198
Prepaid Transportation - LaSalle Pipeline (Pearsall Plant)	5,784,246	6,136,586
Cost of Issuance - First Mortgage Bonds, Series 2009B	1,897,521	1,988,603
Low Pressure Turbine Replacement	2,990,732	3,629,795
Temporary Installation of Amistad Transformer	-	106,684
Deferred Cost of Abandoned Project	21,428,563	-
Other	1,169	9,037
Total Deferred Charges	<u>\$ 40,428,597</u>	<u>\$ 21,854,882</u>

Premium on Refinanced Notes. In November 2007, the Cooperative refinanced all RUS and FFB mortgage notes with NRUCFC. As a result, premium costs of \$8,162,348 were incurred. The premium is being amortized over twenty-five years. Amortization expense for the years ended December 31, 2012 and 2011 amounted to \$326,494 for each year. Accumulated amortization of the premium on refinanced notes was \$1,659,677 and \$1,333,184 as of December 31, 2012 and 2011, respectively.

Unsecured Financing Costs. In 2008, the Cooperative obtained an unsecured revolving line of credit from NRUCFC. As a result, financing costs of \$1,053,183 were incurred. These costs are being amortized over three years. Annual amortization expense for the years ended December 31, 2012 and 2011 amounted to \$-0- and \$263,296, respectively. Accumulated amortization of the unsecured financing costs was \$1,053,183 and \$789,887, respectively. During 2011, the Cooperative obtained an unsecured revolving line of credit from NRUCFC. As a result, financing costs of \$1,117,102 were incurred. These costs are being amortized over five years. Amortization expense for the years ended December 31, 2012 and 2011 amounted to \$223,420 and \$93,092, respectively. Accumulated amortization of the unsecured financing cost was \$316,512 and \$93,092, respectively.

Retirement Plan Benefit Level Increase. During 2006, the retirement plan was amended to change the normal retirement age from 65 to 62. The retirement benefit level increased from 1.7% to 2.0% for future credited benefit service beginning January 1, 2006. As a result, the Cooperative contributed an additional \$1,574,007 to the retirement fund. This amount is being amortized over twenty years. Amortization expense for the years ended December 31, 2012 and 2011 amounted to \$78,700 for each year. Accumulated amortization of the retirement plan benefit level increase costs was \$550,902 and \$472,202 as of December 31, 2012 and 2011, respectively.

Note 7 Deferred Charges, Continued

Hot Section Replacement. In 2009 the hot sections in each of the combined cycle generation units were replaced at a cost of \$5,724,625 and will be amortized over thirty-six months. The amortization expense for the years ended December 31, 2012 and 2011 was \$1,029,198 and \$1,912,974, respectively. Accumulated amortization of the deferred debit for the hot section replacement was \$5,724,625 and \$4,695,427 for the years ended December 31, 2012 and 2011, respectively.

Prepaid Transportation – LaSalle Pipeline (Pearsall Plant). During 2009, the Cooperative entered into a contract with LaSalle Pipeline for transportation service of natural gas to the Pearsall plant site. The contract provides that STEC agree to pay for the cost of the pipeline in excess of \$7,839,740. The difference is \$6,944,588 which was paid in 2009. This payment is considered a prepayment of transportation cost, and will be expensed over the 20 year life of the contract starting in March 2010. Additionally, a credit of \$189,978, for overpayment of sales tax, was received in 2010. The amortization expense for the years ended December 31, 2012 and 2011 was \$352,340. Accumulated amortization as of December 31, 2012 and 2011 was \$970,364 and \$618,024, respectively.

Cost of Issuance – First Mortgage Bonds, Series 2009B. Various costs were incurred during 2009 to secure the First Mortgage Bonds, Series 2009B, due 2028 and 2040. These issuance costs of \$2,142,713 will be amortized over twenty-four years. Additional cost incurred in 2010 amounted to \$41,875. Amortization for 2012 and 2011 was \$91,081. Accumulated amortization as of December 31, 2012 and 2011 is \$287,067 and \$195,985, respectively.

Low Pressure Turbine Replacement. During 2010, the Cooperative replaced the low pressure turbines in two of the units in the combined cycle generation units for a cost of \$3,955,208. In 2011, the low pressure turbine in the third unit was replaced at a cost of \$518,232. The cost will be amortized over seven years which is the estimated useful life of the turbines. The amortization expense for 2012 was \$639,063 and for 2011 was \$608,216. Accumulated amortization of the deferred debit for the low pressure turbine replacements was \$1,482,708 and \$843,645 for the years ended December 31, 2012 and 2011, respectively.

Temporary Installation of Amistad Transformer. During 2011, the Amistad Dam Project needed a new transformer. STEC installed one of its transformers at a cost of \$191,390 until the Western Area Power Authority (WAPA) could put in a replacement. The cost is being amortized over twelve months. Amortization expense for 2012 was \$106,684 and for 2011 was \$84,706.

Deferred Cost of Abandoned Project. Since 2008, STEC was jointly developing Coletto Creek Unit #2 with International Power of America (IPA), the present owner and operator of Coletto Creek Unit #1. In 2012, STEC and IPA mutually decided not to pursue further participation in the project. STEC's total cost of \$22,556,382 will be amortized over ten years. The amortization expense for the year ended December 31, 2012, was \$1,127,819 and accumulated amortization as of December 31, 2012, was \$1,127,819.

Note 8 Patronage Capital

At December 31, 2012 and 2011, patronage capital consisted of:

	2012	2011
Patronage Capital		
Assigned	\$ 140,542,375	\$ 118,675,806
Assignable	23,646,986	21,866,569
Total Patronage Capital	<u>\$ 164,189,361</u>	<u>\$ 140,542,375</u>

No capital credit retirements were paid in 2012 or 2011.

Note 9 Other Equities

At December 31, 2012 and 2011, other equities consisted of:

	2012	2011
Donated Capital	\$ 553	\$ 553
Capital Losses	(65)	(65)
Total Other Equities	<u>\$ 488</u>	<u>\$ 488</u>

Note 10 Notes and Bonds Payable

Following is a summary of the outstanding notes and bonds payable as of December 31, 2012 and 2011:

	2012	2011
Notes Payable due NRUCFC	\$ 284,546,944	\$ 291,047,989
First Mortgage Bonds, Series 2009B	300,078,430	315,333,334
Liability - Medina Electric Cooperative	2,495,338	2,495,338
Notes Payable due NRUCFC Acquired from MVEC	44,992,982	45,909,741
Total	632,113,694	654,786,402
Less Current Maturities	(23,545,176)	(21,990,860)
Notes and Bonds Payable, Net of Current Maturities	<u>\$ 608,568,518</u>	<u>\$ 632,795,542</u>

The NRUCFC mortgage notes payable are secured by substantially all assets of the Cooperative. These notes require quarterly payments of principal (if the period for principal amortization has begun) and interest sufficient to amortize the remaining balances of the loans to their maturity dates. The loan agreements also contain certain affirmative, negative, and financial covenants.

Note 10 Notes and Bonds Payable, Continued

Interest rates on the mortgage notes payable are both fixed and variable. At December 31, 2012, \$275,573,323 mortgage notes payable were at fixed interest rates ranging from 2.85% to 7.45%, with a weighted average of 4.78%. At December 31, 2011, \$336,957,730 mortgage notes payable were at fixed interest rates ranging from 3.25% to 7.45%, with a weighted average of 4.45%. At December 31, 2012, \$53,966,603, mortgage notes payable were at variable interest rate of 2.90%. There were no variable rate notes at December 31, 2011.

At December 31, 2012 and 2011, there were no unadvanced loan funds available to the Cooperative on mortgage note commitments from NRUCFC.

The First Mortgage Bonds payable are dated November 19, 2009, and are secured by substantially all assets of the Cooperative. The "2028 bonds" in the amount of \$180,000,000 have a final maturity of January 1, 2028 and a fixed interest rate of 5.41%. The "2028 bonds" require annual payments of principal in the amount of \$10,588,237 beginning January 1, 2012, and semiannual payments of interest on the first day of each January and July beginning January 1, 2010. The "2040 bonds" in the amount of \$140,000,000 have a final maturity of January 1, 2040 and a fixed interest rate of 5.98%. The "2040 bonds" require annual payments of principal in the amount of \$4,666,666 beginning January 1, 2011, and semiannual payments of interest on the first day of each January and July beginning January 1, 2010. The bond purchase agreement and related indenture also contain certain affirmative, negative, and financial covenants.

Total interest costs incurred on the notes and bonds payable for the years ended December 31, 2012 and 2011, are presented below.

	2012	2011
Interest on Notes Payable from NRUCFC	\$ 14,360,452	\$ 14,568,274
Interest on Lines of Credit	1,872,595	1,078,795
Interest on First Mortgage Bonds, Series 2009B	16,979,043	17,830,933
Interest Capitalized into Construction	(2,087,451)	(2,206,208)
Total Interest Expense	<u>\$ 31,124,639</u>	<u>\$ 31,271,794</u>

The liability to Medina Electric Cooperative, Inc. (MEC) was computed on the Cooperative's capital credits from San Miguel Electric Cooperative, Inc. based on the capacity and energy purchased from San Miguel Electric Cooperative, Inc. by STEC during the years the pool existed. This amount will be paid in proration at such time as the San Miguel Electric Cooperative, Inc. capital credits are paid to the Cooperative. The Cooperative does not anticipate the payment of capital credits from San Miguel Electric Cooperative, Inc. within the foreseeable future.

Note 10 **Notes and Bonds Payable, Continued**

As of December 31, 2012, estimated annual maturities of notes payable outstanding for the next five years and thereafter are as follows:

	<u>Mortgage Bonds</u>	<u>NRUCFC</u>	<u>MEC</u>	<u>Total</u>
2013	\$ 15,254,903	\$ 8,290,273	\$ -	\$ 23,545,176
2014	15,254,903	8,503,047	-	23,757,950
2015	15,254,903	8,759,437	-	24,014,340
2016	15,254,903	9,027,854	-	24,282,757
2017	15,254,903	9,308,900	-	24,563,803
Thereafter	223,803,915	285,650,415	2,495,338	511,949,668
	<u>\$ 300,078,430</u>	<u>\$ 329,539,926</u>	<u>\$ 2,495,338</u>	<u>\$ 632,113,694</u>

During 2013, the Cooperative plans to issue bonds of at least \$150,000,000.

Note 11 **Pension Plan**

The National Rural Electric Cooperative Association (NRECA) Retirement Security Plan (RS Plan) is a defined benefit pension plan qualified under section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. It is a multiemployer plan under the accounting standards. The plan sponsor's Employer Identification Number is 53-0116145 and the Plan Number is 333. A unique characteristic of a multiemployer plan compared to a single employer plan is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers.

The Cooperative's contributions to the RS Plan in 2012 and in 2011 represented less than 5 percent of the total contributions made to the plan by all participating employers. The Cooperative made contributions to the plan of \$3,689,833 in 2012 and \$3,508,033 in 2011. There have been no significant changes that affect the comparability of 2012 and 2011 contributions.

In the RS Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the Retirement Security Plan was between 65 percent and 80 percent funded at January 1, 2012 and January 1, 2011 based on the PPA funding target and PPA actuarial value of assets on those dates. Because the provisions of the PPA do not apply to the RS Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

The 401(k) plan is maintained by the Cooperative and contributions to the plan are voluntary for the employees. The Cooperative contributes an amount equal to the employee contribution up to 3% of the employee's compensation. The Cooperative made contributions of \$487,583 and \$446,101 in 2012 and 2011, respectively, to the 401(k) plan on behalf of employees.

Note 11 **Pension Plan, Continued**

Effective April 1, 2007, the Cooperative adopted an executive compensation plan which covers a select group of management and key employees involved in the management of STEC. Participants may defer 100% of annual compensation, up to the annual deferral limit. Contributions are only made through payroll deductions and are invested in the plan on behalf of the employee. This plan is unfunded and the accounts are assets of the Cooperative. As of December 31, 2012 and 2011, the deferred compensation investment of \$303,952 and \$254,390, respectively, and the related liability for like amounts have been recorded on the Cooperative's balance sheet.

Note 12 **Deferred Credits**

Following is a summary of the amounts recorded as deferred credits as of December 31, 2012 and 2011:

	2012	2011
Cost Accumulation - City of Garland CREZ Project	\$ 4,848,767	\$ 1,134,047
Net Credits for Excess Fuel, Energy, and Capacity Charges	2,920,933	1,907,316
Net Credits for Construction	139,925	140,667
Total Deferred Credits	<u>\$ 7,909,625</u>	<u>\$ 3,182,030</u>

Costs accumulation related to the CREZ Project consists of costs that are reimbursed by the City of Garland to build a transmission line. See Note 20 for further details.

Net credits for excess fuel, energy, and capacity charges consist of the aggregate amounts remaining to be passed through to the Cooperative's member distribution cooperatives in the future in the form of reductions of amounts due to the Cooperative for energy billings.

During 2011, the Cooperative received funds for aid to construct from some of the member cooperatives for enhancements needed to existing substations to supply their end users. The funds are held until construction is complete.

Note 13 **Related Party Transactions**

Members of the Cooperative. As of December 31, 2012 and 2011, the members of the Cooperative included eight electric distribution cooperatives to which the Cooperative sells electric energy. The member cooperatives are: Jackson Electric Cooperative, Karnes Electric Cooperative, Magic Valley Electric Cooperative, Medina Electric Cooperative, Nueces Electric Cooperative, San Patricio Electric Cooperative, Victoria Electric Cooperative, and Wharton County Electric Cooperative. The board of directors, including alternate directors, of the Cooperative is comprised of individuals who are either general managers or representatives of the respective boards of directors of the eight member distribution cooperatives.

Note 13 Related Party Transactions, Continued

All eight of the distribution cooperatives are committed to purchase their electric power and energy requirements from the Cooperative through December 31, 2049. The contracts provide that those member cooperatives that elect to adopt customer choice and allow retail consumers served to choose their electric energy supplier will be subject to an annual minimum generation facility charge.

Purchase of Power from SMEC. STEC purchases power from San Miguel Electric Cooperative, Inc. (SMEC), an electric generating and transmission cooperative of which STEC is one of its two members. Included on the board of directors of SMEC is a representative from STEC and from each of the eight distribution cooperatives who are members of STEC. Details of purchased power and generation and transmission (G & T) capital credits from SMEC are as follows:

	2012	2011
Purchased Power from San Miguel Electric Cooperative, Inc.	\$ 72,245,827	\$ 69,244,181
Payable to SMEC for Purchased Power at December 31	\$ 5,731,614	\$ 5,068,377
G & T Capital Credits Received from SMEC	\$ 1,674,578	\$ 1,820,741
Total Accumulated G & T Capital Credits from SMEC (Unpaid) at December 31	\$ 21,524,631	\$ 19,850,053

Note 14 Commitments and Contingencies

Power from SMEC. Under a wholesale power agreement, the Cooperative is committed to purchase its electric power and energy requirements from San Miguel Electric Cooperative, Inc. (SMEC), until December 31, 2037. The rates paid for such purchases are determined by the SMEC board of directors. The agreement essentially provides that the member cooperatives of SMEC are collectively responsible for SMEC's total cost of owning and operating the plant including SMEC's debt service obligations. These costs are collectively the responsibility of the member cooperatives of SMEC, which consists of STEC and Brazos Electric Power Cooperative, Inc.

Amistad Dam and Falcon Dam. The Cooperative acquires and distributes hydroelectric power and energy generated at Amistad Dam and Falcon Dam. The Cooperative has entered into an electric service contract dated August 9, 1977, and effective on June 8, 1983, with the United States of America for the power generated at the Amistad and Falcon Plants until June 2033.

Iberdrola Wind Project. The Cooperative has a 15 year contract to purchase 50 MW of energy from Iberdrola Renewables' Peñascol generating project. The commercial operation commenced in May 2009. In 2011, the Cooperative entered into a second 15 year contract with Iberdrola Renewables for an additional 50.8 MW from the Peñascol project.

Agreements to Buy or Sell Power. At various times, the Cooperative enters into agreements to either buy or sell power. These agreements are usually for periods of one to two years.

Note 14 **Commitments and Contingencies, Continued**

Claims and Lawsuits. The Cooperative is subject to claims and lawsuits which arise primarily in the ordinary course of business. Based on information presently available, it is the opinion of management that the disposition or ultimate determination of such claims and lawsuits will not have a material adverse effect on the financial position of the Cooperative.

Note 15 **Lines of Credit**

The Cooperative maintains various revolving lines of credit as follows:

	<u>Maturity Date</u>	<u>Commitment Amount</u>	
		<u>2012</u>	<u>2011</u>
NRUCFC, Administrative Agent for the Lenders	8/04/2016	\$ 350,000,000	\$ 350,000,000
Farm Credit Bank of Texas (Serviced by CoBank)	9/20/2015	\$ 25,000,000	\$ 25,000,000
First Victoria National Bank	7/10/2013	\$ 2,000,000	\$ 2,000,000

NRUCFC is the administrative agent for the lenders for the \$350,000,000 line of credit. Commitment amounts for each of the lenders are: (1) NRUCFC \$55,000,000; (2) Bank of America \$55,000,000; (3) Key Bank \$50,000,000; (4) The Bank of Tokyo-Mitsubishi \$50,000,000; (5) CoBank \$30,000,000, (6) Regions Bank \$25,000,000, (7) Wells Fargo Bank \$25,000,000, (8) PNC Bank \$15,000,000, (9) Chang Hwa Commercial Bank \$15,000,000, (10) Mega International Commercial Bank Co., Ltd., New York Branch \$10,000,000, (11) Mega International Commercial Bank, Silicon Valley Branch \$10,000,000, and (12) Bank of Taiwan \$10,000,000. This line of credit contains various variable interest rate options, and requires interest payments at the end of the interest rate election period. The credit agreement also contains certain affirmative, negative, and financial covenants. The outstanding balances on this line of credit at December 31, 2012 and 2011 were \$155,000,000 and \$31,000,000, respectively.

The \$25,000,000 line of credit with Farm Credit Bank of Texas requires quarterly interest payments on any advances, and contains various variable interest rate options. The credit agreement also contains certain affirmative, negative, and financial covenants. There was no outstanding balance on this line of credit at either December 31, 2012 or 2011.

The \$2,000,000 line of credit with First Victoria National Bank requires monthly interest payments on any advances. The interest rate is a variable rate, being the First Victoria base rate. There was no outstanding balance on this line of credit at either December 31, 2012 or 2011.

These lines of credit are unsecured. Other than the \$350,000,000 NRUCFC line of credit (which can potentially be increased by \$50,000,000 to \$400,000,000), the maximum amount of unsecured lines of credit or like credit facilities that the Cooperative may have cannot exceed, in the aggregate, \$85,000,000.

Total interest costs on these lines of credit (including facility/commitment fees) were \$1,872,595 and \$1,078,795 for the years ended December 31, 2012 and 2011, respectively.

Note 16 Concentration of Credit Risk

The Cooperative maintains its operating cash balances at a financial institution in Victoria, Texas. The Federal Deposit Insurance Corporation insures interest-bearing bank account balances up to \$250,000, and non-interest bearing transactions accounts are fully insured. At December 31, 2012 and 2011, the Cooperative's uninsured balances totaled \$31,493,605 and \$31,449,979, respectively. Included in the uninsured cash balance are escrow funds held by the Cooperative as security for third parties of \$6,654,850 and \$6,627,731, as of December 31, 2012 and 2011, respectively (Note 6).

Cash investments at National Rural Utilities Cooperative Finance Corporation, of \$2,000,049 and \$13,000,000, as of December 31, 2012 and 2011, respectively, were uninsured.

The Cooperative has not experienced any losses in such accounts. The Cooperative believes it is not exposed to any significant credit risk on cash and cash equivalents.

Note 17 Disclosures about Fair Value of Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are based on inputs of observable and unobservable market data a market participant would use in pricing the asset or liability. The use of observable inputs is maximized where available and the use of unobservable inputs is minimized for fair value measurement. In a three-tier fair value hierarchy, that prioritizes inputs to valuation techniques used for fair value measurement, the following levels were established for each input:

- Level 1 valuations use quoted price in active markets for identical assets or liabilities that are accessible at the measurement date. An active market is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 valuations use inputs, other than those included in Level 1, that are observable for the asset or liability, either directly or indirectly.
- Level 3 valuations use unobservable inputs for the asset or liability. Unobservable inputs are used to the extent observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. The input may reflect the assumptions of the reporting entity of what a market participant would use in pricing an asset or liability.

Note 17 Disclosures about Fair Value of Financial Instruments, Continued

In the case of multiple inputs being used in fair value measurement, the lowest level input that is significant to the fair value measurement represents the level in the fair value hierarchy in which the fair value measurement is reported.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Investment in Associated Organizations. It was not practicable to estimate the fair value of Investments in Associated Organizations. These investments are carried at cost of original investment, which is increased or decreased by the amount of capital credits distributed to the cooperative each year. Capital credits are based on net income or loss experienced by the associated organization to the extent that net income is not paid in cash to the investing cooperative.

Cash and Cash Equivalents. The carrying amount is a reasonable estimate of fair value (Level 3).

Other Current and Accrued Assets. The carrying amount is a reasonable estimate of fair value (Level 3).

Notes and Bonds Payable. The fair value of notes payable to NRUCFC is estimated using the NRUCFC long-term fixed rates available at December 31st for each year end, for loan terms equivalent to the number of years to the repricing dates for each of the loans, and computing present values of the required payments through the repricing dates. The fair value of the bonds payable is estimated using estimated current market interest rates available for the Cooperative for bonds with similar maturities, and computing present values of the required payments through the maturity dates. The carrying amounts and estimated fair values of the notes payable to NRUCFC and the bonds payable at December 31, 2012 and 2011 are as follows (Level 3):

	December 31, 2012		December 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Notes Payable to NRUCFC	\$ 329,539,926	\$ 334,927,525	\$ 336,957,730	\$ 341,002,023
First Mortgage Bonds Payable	\$ 300,078,430	\$ 352,751,912	\$ 315,333,334	\$ 344,653,142

Liability – Medina Electric Cooperative. The carrying amount of the liability to MEC at both December 31, 2012 and 2011 is \$2,495,338. A reasonable estimate of fair value could not be made. The liability to MEC is computed on the Cooperative's capital credits from San Miguel Electric Cooperative, Inc. See Investments in Associated Organizations above for discussion of capital credits.

Lines of Credit. The carrying amount is a reasonable estimate of fair value since the interest rate is variable (Level 3).

Other Current and Accrued Liabilities. The carrying amount is a reasonable estimate of fair value (Level 3).

Note 18 Income Taxes

Effective January 1, 2005, Internal Revenue Service regulations exclude the treatment of transmission revenue as an unrelated income; therefore, the Cooperative gained tax-exempt status and is qualified to file a tax exempt organization tax return for the years ended December 31, 2012 and 2011. The Cooperative did not have any unrelated business taxable income in 2012 and 2011. Furthermore, it is anticipated that the Cooperative will not have unrelated business taxable income in the foreseeable future.

The Cooperative's tax years that remain subject to examination are fiscal years 2009-2012.

Note 19 Hedging Activities

The Cooperative periodically enters into futures and options contracts for a portion of its anticipated natural gas purchases to manage the price risk associated with fluctuations in market prices. These contracts limit the unfavorable effect that price increases will have on natural gas purchases. The gains and losses from gas price management activities and the interest costs of hedging are included in the pass through costs to its members.

At December 31, 2012, none of the Cooperative's natural gas needs for 2013 had been hedged. At December 31, 2011, approximately 18.7% of the Cooperative's natural gas needs for 2012 had been hedged at an average price of \$3.63/mmbtu. Any cost or benefit for futures contracts will be passed through to the member cooperatives through the monthly billing, along with associated fuel costs, in the month the gains or losses are recognized.

Note 20 The Competitive Renewable Energy Zones (CREZ) Project

The PUCT has developed a project under which the energy from renewable energy technologies, such as wind generation, will be transmitted within and through competitive renewable energy zones to areas of the state where that energy will be ultimately used by electric customers.

In 2009, the Cooperative was approved by the PUCT to construct a 109 mile section of the 345kV transmission line. The line is estimated to cost \$134 million and will be completed in 2013.

In 2010, the Cooperative and the City of Garland entered into an agreement whereby the Cooperative will oversee Engineering, Procurement and Construction aspects of the approximately seventy mile portion of the transmission line on behalf of the City of Garland. The City of Garland has agreed to pay the Cooperative a participation fee of \$1.3 million. Also, on a monthly basis, the City of Garland will reimburse the Cooperative for expenses it has incurred on this project.

Note 21 Subsequent Event

In December 2012, the Cooperative entered into an Equipment Procurement Contract with Wartsila North America, Inc. for the purchase of 12 natural gas-fired reciprocating engines for a 220 megawatt generation facility in south Texas. The estimated cost of the entire project will be approximately \$210,000,000 and has an anticipated commercial operation date of August 2014.

WP/D-1 OPERATION AND MAINTENANCE

South Texas Electric Cooperative, Inc.
Test Year Ending December 31, 2012

Acct No.	Description	Reference	Total Company (1)	Account Transfer (2)	Source (3)	Total (4)	Texas (5)	Production (6)	Transmission (7)	Distribution (8)
Power Production Expenses										
<u>Steam Power Generation</u>										
<u>Operation</u>										
500	Operation Super. & Eng.	Sch A, B-9, D-1, F-2	227,915	0	0	227,915	227,915	227,915		
501	Eligible Fuel	Sch A, B-9, D-1, F-2	209,056	0	0	209,056	209,056	209,056		
501	Non-Eligible Fuel		0	0	0	0	0	0		
502	Steam Expenses	Sch D-1	1,071,190	0	0	1,071,190	1,071,190	1,071,190		
505	Electric Expenses	Sch D-1	485,914	0	0	485,914	485,914	485,914		
506	Misc. Steam Power Expenses	Sch D-1	1,025,156	0	0	1,025,156	1,025,156	1,025,156		
507	Rents	Sch D-1	0	0	0	0	0	0		
	Subtotal		3,019,230	0	0	3,019,230	3,019,230	3,019,230	0	0
<u>Maintenance</u>										
510	Maint. Super. & Eng.	Sch D-1	189,426	0	0	189,426	189,426	189,426		
511	Maint. of Structure	Sch D-1	27,779	0	0	27,779	27,779	27,779		
512	Maint. of Boiler Plant	Sch D-1	251,015	0	0	251,015	251,015	251,015		
513	Maint. of Electric Plant	Sch D-1	1,383,816	0	0	1,383,816	1,383,816	1,383,816		
514	Maint. of Misc. Steam Plant	Sch D-1	45,175	0	0	45,175	45,175	45,175		
	Subtotal		1,897,211	0	0	1,897,211	1,897,211	1,897,211	0	0
<u>Hydraulic Generation</u>										
<u>Operation</u>										
535	Operation Super. & Engineering		0	0	0	0	0	0		
536	Water for Power		0	0	0	0	0	0		
537	Hydraulic Expenses		0	0	0	0	0	0		
538	Electric Expenses		0	0	0	0	0	0		
539	Misc. Hydraulic Generation		0	0	0	0	0	0		
540	Rents		0	0	0	0	0	0		
	Subtotal		0	0	0	0	0	0	0	0
<u>Maintenance</u>										
541	Maintenance Super. & Engin.		0	0	0	0	0	0		
542	Maintenance of Structure		0	0	0	0	0	0		
543	Maint. Reservoirs, Dams, & Waterways		0	0	0	0	0	0		
544	Maint. of Electric Plant		0	0	0	0	0	0		
545	Maint. Misc. Hydraulic Gen. Exp		0	0	0	0	0	0		
	Subtotal		0	0	0	0	0	0	0	0

Acct No.	Description	Reference	Total Company (1)	Account Transfer (2)	Source (3)	Total (4)	Texas (5)	Production (6)	Transmission (7)	Distribution (8)
<u>Other Power Generation</u>										
<u>Operation</u>										
546	Operation Super. & Engineering	Sch D-1	455,174	0		455,174	455,174	455,174		
547	Fuel	Sch D-1	20,194,179	0		20,194,179	20,194,179	20,194,179		
548	Generation Expense	Sch D-1	2,659,803	0		2,659,803	2,659,803	2,659,803		
549	Misc. Other Power Generation	Sch D-1	423,704	0		423,704	423,704	423,704		
550	Rents	Sch D-1	0	0		0	0	0		
	Subtotal		23,732,861	0		23,732,861	23,732,861	23,732,861	0	0
<u>Maintenance</u>										
551	Maintenance Super. & Engin.	Sch D-1	391,286	0		391,286	391,286	391,286		
552	Maintenance of Structure	Sch D-1	0	0		0	0	0		
553	Maint. Generation & Electric Plant	Sch D-1	3,211,649	0		3,211,649	3,211,649	3,211,649		
554	Maint. Misc. Other Power	Sch D-1	0	0		0	0	0		
	Subtotal		3,602,936	0		3,602,936	3,602,936	3,602,936	0	0
<u>Other Power Supply</u>										
555	Purchased Power Demand	Sch B-9, D-1	186,927,950	0		186,927,950	186,927,950	186,927,950		
556	System Control & Load Dispatch	Sch D-1	2,077,335	0		2,077,335	2,077,335	2,077,335		
557	Other	Sch D-1	2,294	0		2,294	2,294	2,294		
	Subtotal (Other Power Supply)	Sch D-1	189,007,579	0		189,007,579	189,007,579	189,007,579	0	0
Total Power Production Expense										
		Sch B-9, F-2	221,259,817	0		221,259,817	221,259,817	221,259,817	0	0

Acct No.	Description	Reference	Total Company (1)	Account Transfer (2)	Source (3)	Total (4)	Texas (5)	Production (6)	Transmission (7)	Distribution (8)
Transmission Expense										
Operation										
560	Operation Super. & Engin.	Sch D-1	194,601	0		194,601	194,601		194,601	
561	Load Dispatching	Sch D-1	2,568,313	0		2,568,313	2,568,313		2,568,313	
562	Station Equipment	Sch D-1	1,763,208	0		1,763,208	1,763,208		1,763,208	
563	Overhead Line Expense	Sch D-1	927,881	0		927,881	927,881		927,881	
564	Underground Line Expense	Sch D-1	0	0		0	0		0	
565	Wheeling	Sch D-1	6,582,870	0		6,582,870	6,582,870			6,582,870
566	Misc. Transmission Expense	Sch D-1	154,366	0		154,366	154,366		154,366	
567	Rents	Sch D-1	37,035	0		37,035	37,035		37,035	
	Others	Sch D-1				0				
	Subtotal		12,228,275	0		12,228,275	12,228,275	0	5,645,405	6,582,870
Maintenance										
568	Maintenance Super. & Engin.	Sch D-1	9,075	0		9,075	9,075		9,075	
569	Maint. of Structure	Sch D-1	0	0		0	0		0	
570	Maint. of Station Equipment	Sch D-1	3,965,821	0		3,965,821	3,965,821		3,965,821	
571	Maint. of Overhead Lines	Sch D-1	1,939,197	0		1,939,197	1,939,197		1,939,197	
572	Maint. of Underground Lines	Sch D-1	0	0		0	0		0	
573	Maint. of Misc. Trans. Plant	Sch D-1	9,946	0		9,946	9,946		9,946	
	Others	Sch D-1				0				
	Subtotal		5,924,039	0		5,924,039	5,924,039	0	5,924,039	0
Total Transmission Expenses										
		Sch B-9, F-2	18,152,314	0		18,152,314	18,152,314	0	11,569,444	6,582,870

Acct No.	Description	Reference	Total Company (1)	Account Transfer (2)	Source (3)	Total (4)	Texas (5)	Production (6)	Transmission (7)	Distribution (8)
Distribution Expense										
<u>Operation</u>										
580	Operation Super. & Engin.	Sch D-1	237,075	0		237,075	237,075	0	0	237,075
581	Load Dispatching	Sch D-1	464,439	0		464,439	464,439			464,439
582	Station Equipment	Sch D-1	1,391,153	0		1,391,153	1,391,153			1,391,153
583	Overhead Line Expense	Sch D-1	0	0		0	0	0		0
584	Underground Line Expense	Sch D-1	0	0		0	0	0		0
585	Street Light & Signal Systems	Sch D-1	0	0		0	0	0		0
586	Meter Expenses	Sch D-1	0	0		0	0	0		0
587	Customer Installation Expense	Sch D-1	0	0		0	0	0		0
588	Misc. Distribution Expenses	Sch D-1	21,467	0		21,467	21,467	0	0	21,467
589	Rents	Sch D-1	100	0		100	100	100		100
	Subtotal		2,114,234	0		2,114,234	2,114,234	0	0	2,114,234
<u>Maintenance</u>										
590	Maintenance Super. & Engin.		0	0		0	0	0	0	0
591	Maint. of Structure		0	0		0	0	0	0	0
592	Maint. of Station Equipment	Sch D-1, F-4	1,208,796	0		1,208,796	1,208,796	0	0	1,208,796
593	Maint. of Overhead Lines		0	0		0	0	0		0
594	Maint. of Underground Lines		0	0		0	0	0		0
595	Maint. of Line Transformers		0	0		0	0	0		0
596	Maint. of Street Lights		0	0		0	0	0		0
597	Maint. of Meters		0	0		0	0	0		0
598	Maint. of Misc. Dist. Plant		0	0		0	0	0	0	0
	Subtotal		1,208,796	0		1,208,796	1,208,796	0	0	1,208,796
	Total Distribution Expenses	Sch B-9, F-2	3,323,030	0		3,323,030	3,323,030	0	0	3,323,030

Acct No.	Description	Reference	Total Company	Account Transfer	Source	Total	Texas	Production	Transmission	Distribution
			(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Customer and Information Expenses										
<u>Customer Accounts Expense</u>										
901	Supervision		0	0		0	0			0
902	Meter Reading Expense	Sch D-1, WP/D-3	4,906	0		4,906	4,906			4,906
903	Customer Records & Collect.	Sch D-1, WP/D-3	8,838	0		8,838	8,838			8,838
904	Uncollectible Accounts		0	0		0	0			0
905	Misc. Customer Account Exp.		0	0		0	0			0
	Subtotal		13,744	0		13,744	13,744	0	0	13,744
<u>Cust. Service & Information Expense</u>										
906	Customer Service & Information		0	0		0	0			0
907	Supervision		0	0		0	0			0
908	Customer Assistance		0	0		0	0			0
909	Inform. & Instruct. Adv. Exp.		0	0		0	0			0
910	Misc. Cust. Service & Information		0	0		0	0			0
	Subtotal		0	0		0	0	0	0	0
<u>Sales</u>										
911	Supervision		0	0		0	0			0
912	Demonstration & Selling Expense	Sch D-1, WP/D-3	52,006	0		52,006	52,006			52,006
913	Advertising Exp		0	0		0	0			0
916	Misc. Sales Exp		0	0		0	0			0
917	Sales Expense		0	0		0	0			0
	Subtotal		52,006	0		52,006	52,006	0	0	52,006
Total Cust. Serv. & Information Expenses										
		Sch B-9, F-2	65,750	0		65,750	65,750	0	0	65,750

Acct No.	Description	Reference	Total Company (1)	Account Transfer (2)	Source (3)	Total (4)	Texas (5)	Production (6)	Transmission (7)	Distribution (8)
Administrative & General Expenses										
920	Admin. & General Salaries	Sch D-2	1,975,714	0	PAYXAG	1,975,714	1,975,714	896,608	828,403	250,703
921	Office Supplies	Sch D-2	284,657	0	PAYXAG	284,657	284,657	129,182	119,355	36,121
923	Outside Service	Sch D-2	1,425,324	0	WP/D-2/1	1,425,324	1,425,324	505,799	493,865	425,660
924	Property Insurance Exp.		0	0	PLTSVC-N	0	0	0	0	0
	Property Ins. - Prod. Plant	Sch D-2	610,453	0		610,453	610,453	610,453		
	Property Ins. - Transmission Plant	Sch D-2	130,091	0		130,091	130,091		130,091	
	Property Ins. - Distribution	Sch D-2	99,079	0	WP/B-1/1	99,079	99,079	170	40,527	58,383
	Property Ins. - Other	Sch D-2	9,581	0	PLTSVC-N	9,581	9,581	4,261	3,903	1,417
	Subtotal (Acct 924)		849,204	0		849,204	849,204	614,884	174,520	59,800
925	Injuries & Damages	Sch D-2	250,135	0	PAYXAG	250,135	250,135	113,515	104,880	31,740
926	Pensions & Benefits	Sch D-2	401,426	0	PAYXAG	401,426	401,426	182,173	168,315	50,938
928	Regulatory Commission	Sch D-2	682	0	TOTREV	682	682	0	241	440
929	Duplicate Charges (Credit)		0	0		0	0	0	0	0
930	Misc. General Expense	Sch D-2	2,486,368	(1,980,064)	WP/D-2/1	506,304	506,304	179,670	175,431	151,203
931	Rents	Sch D-2	3,893	0	PAYXAG	3,893	3,893	1,767	1,632	494
932	Maint. of General Plant	Sch D-2	873,329	0	GNLPLT-N	873,329	873,329	215,121	502,343	155,865
Total Administrative & General Expenses			8,550,731	(1,980,064)		6,570,667	6,570,667	2,838,717	2,568,985	1,162,965
Total Operation & Maintenance			251,351,641	(1,980,064)		249,371,577	249,371,577	224,098,534	14,138,429	11,134,614

Work sheet allocates Operations and Maintenance to functions.
Exclusions are made for Competitive Retailer and dues used for legislative advocacy, political and social purposes.

Administrative and General:

Regulatory is allocated as other revenue is.

Maintenance of General Plant is allocated as general plant is.

Other Administrative and General expenses are allocated as payroll excluding A&G are.

WP/D-2/1 — ADJUSTMENT OF A&G EXPENSE FOR EXCLUSIONS

South Texas Electric Cooperative, Inc.

Test Year Ending December 31, 2012

Acct No	Description	Reference	Functionalization	Total	Production	Transmission	Distribution
923	Outside Services		TOMXFP	1,425,324	505,799	493,865	425,660
			TOMXFP	0	0	0	0
923	Net Outside Services	WP/D-1	TOMXFP	1,425,324	505,799	493,865	425,660
928	Regulatory Commission			682			
	Less: PUCT Assessment	WP/D-1		0			
928	Net Regulatory Comm. Expense		PLTSVC-N	682	303	278	101
930	Misc. General Expense			2,486,368	189,814	185,335	2,111,219
	Less: CR Exclusions (from WP/D-2/2)	WP/D-1	Direct	(1,951,479)	0	0	(1,951,479)
	Less: Other Exclusions (from Sch D-5)	WP/D-1	TOMXFP	(28,585)	(10,144)	(9,905)	(8,537)
930	Net Misc. General Expense	WP/D-1		506,304	179,670	175,431	151,203

Work sheet displays functionalization methods for outside services, regulatory and misc. general expenses.
Also depicts exclusions of CR costs and portions of dues that are for legislative advocacy, political and social.

WP/D-2/2 ADJUSTMENT FOR COMPETITIVE RETAILER EXCLUSIONS

South Texas Electric Cooperative, Inc.
Test Year Ending December 31, 2012

Acct No	Description	Total	Production	Transmission	Distribution
	<u>CR Expenses</u>				
403.9	Depreciation Expense - CR	161,164			161,164 (to WP/E-1/1.2)
930.5	Customer Relations - CR	<u>1,951,479</u>			<u>1,951,479</u> (to WP/D-2/1)
	Total Expenses	2,112,643	0	0	2,112,643
	<u>CR Revenues</u>				
451.0	Retail Services Fee - CR	2,112,643			2,112,643 (to Sch E-5, WP/E-1/1)

Work sheet itemizes the expenses and revenue that are excluded because they are Competitive Retailer expenses and revenue.

WP/D-3 PAYROLL RELATED EXPENSES

South Texas Electric Cooperative, Inc.
Test Year Ending December 31, 2012

Acct No.	Description	Reference	Total Company (1)	Account Transfer (2)	Source (3)	Total (4)	Texas (5)	Production (6)	Transmission (7)	Distribution (8)
Power Production Expenses										
<u>Steam Power Generation</u>										
<u>Operation</u>										
500	Operation Super. & Eng.		142,330	0		142,330	142,330	142,330		
501	Eligible Fuel		0	0	0	0	0	0		
501	Non-Eligible Fuel		0	0	0	0	0	0		
502	Steam Expenses	Sch D-3	479,992	0		479,992	479,992	479,992		
505	Electric Expenses	Sch D-3	284,985	0		284,985	284,985	284,985		
506	Misc. Steam Power Expenses	Sch D-3	77,952	0		77,952	77,952	77,952		
507	Rents		0	0	0	0	0	0		
	Subtotal		985,259	0		985,259	985,259	985,259	0	0
<u>Maintenance</u>										
510	Maint. Super. & Eng.	Sch D-3	110,441	0		110,441	110,441	110,441		
511	Maint. of Structure	Sch D-3	2,249	0		2,249	2,249	2,249		
512	Maint. of Boiler Plant	Sch D-3	87,262	0		87,262	87,262	87,262		
513	Maint. of Electric Plant	Sch D-3	172,107	0		172,107	172,107	172,107		
514	Maint. of Misc. Steam Plant	Sch D-3	23,320	0		23,320	23,320	23,320		
	Subtotal		395,378	0		395,378	395,378	395,378	0	0
<u>Hydraulic Generation</u>										
<u>Operation</u>										
535	Operation Super. & Engineering		0	0	0	0	0	0		
536	Water for Power		0	0	0	0	0	0		
537	Hydraulic Expenses		0	0	0	0	0	0		
538	Electric Expenses		0	0	0	0	0	0		
539	Misc. Hydraulic Generation		0	0	0	0	0	0		
540	Rents		0	0	0	0	0	0		
	Subtotal		0	0	0	0	0	0	0	0
<u>Maintenance</u>										
541	Maintenance Super. & Engin.		0	0	0	0	0	0		
542	Maintenance of Structure		0	0	0	0	0	0		
543	Maint. Reservoirs, Dams, & Waterways		0	0	0	0	0	0		
544	Maint. of Electric Plant		0	0	0	0	0	0		
545	Maint. Misc. Hydraulic Gen. Exp		0	0	0	0	0	0		
	Subtotal		0	0	0	0	0	0	0	0

Acct No.	Description	Reference	Total Company (1)	Account Transfer (2)	Source (3)	Total (4)	Texas (5)	Production (6)	Transmission (7)	Distribution (8)
<u>Other Power Generation</u>										
<u>Operation</u>										
546	Operation Super. & Engineering	Sch D-3	282,627	0		282,627	282,627	282,627		
547	Fuel		0	0		0	0	0		
548	Generation Expense	Sch D-3	1,148,843	0		1,148,843	1,148,843	1,148,843		
549	Misc. Other Power Generation	Sch D-3	53,450	0		53,450	53,450	53,450		
550	Rents		0	0		0	0	0		
	Subtotal		1,484,920	0		1,484,920	1,484,920	1,484,920	0	0
<u>Maintenance</u>										
551	Maintenance Super. & Engin.	Sch D-3	216,580	0		216,580	216,580	216,580		
552	Maintenance of Structure	Sch D-3	26,923	0		26,923	26,923	26,923		
553	Maint. Generation & Electric Plant	Sch D-3	643,909	0		643,909	643,909	643,909		
554	Maint. Misc. Other Power		0	0		0	0	0		
	Subtotal		887,413	0		887,413	887,413	887,413	0	0
<u>Other Power Supply</u>										
555	Purchased Power Demand	Sch D-3	2,268	0		2,268	2,268	2,268		
556	System Control & Load Dispatch	Sch D-3	1,103,607	0		1,103,607	1,103,607	1,103,607		
557	Other		0	0		0	0	0		
	Subtotal (Other Power Supply)		1,105,875	0		1,105,875	1,105,875	1,105,875	0	0
Total Power Production Expense										
		Sch F-1	4,858,845	0		4,858,845	4,858,845	4,858,845	0	0

Acct No.	Description	Reference	Total Company (1)	Account Transfer (2)	Source (3)	Total (4)	Texas (5)	Production (6)	Transmission (7)	Distribution (8)
Transmission Expense										
<u>Operation</u>										
560	Operation Super. & Engin.	Sch D-3	98,644	0		98,644	98,644		98,644	
561	Load Dispatching	Sch D-3	1,404,142	0		1,404,142	1,404,142		1,404,142	
562	Station Equipment	Sch D-3	767,488	0		767,488	767,488		767,488	
563	Overhead Line Expense	Sch D-3	399,922	0		399,922	399,922		399,922	
564	Underground Line Expense		0	0		0	0		0	
565	Wheeling		0	0		0	0		0	
566	Misc. Transmission Expense	Sch D-3	12,213	0		12,213	12,213		12,213	
567	Rents		0	0		0	0		0	
	Others									
	Subtotal		2,682,409	0		2,682,409	2,682,409	0	2,682,409	0
<u>Maintenance</u>										
568	Maintenance Super. & Engin.	Sch D-3	866	0		866	866		866	
569	Maint. of Structure		0	0		0	0		0	
570	Maint. of Station Equipment	Sch D-3	1,154,158	0		1,154,158	1,154,158		1,154,158	
571	Maint. of Overhead Lines	Sch D-3	651,800	0		651,800	651,800		651,800	
572	Maint. of Underground Lines		0	0		0	0		0	
573	Maint. of Misc. Trans. Plant		0	0		0	0		0	
	Others									
	Subtotal		1,806,824	0		1,806,824	1,806,824	0	1,806,824	0
Total Transmission Expenses										
		Sch F-1	4,489,233	0		4,489,233	4,489,233	0	4,489,233	0

Acct No.	Description	Reference	Total Company (1)	Account Transfer (2)	Source (3)	Total (4)	Texas (5)	Production (6)	Transmission (7)	Distribution (8)
Distribution Expense										
<u>Operation</u>										
580	Operation Super. & Engin.	Sch D-3	134,934	0		134,934	134,934	0	0	134,934
581	Load Dispatching	Sch D-3	290,411	0		290,411	290,411			290,411
582	Station Equipment	Sch D-3	531,016	0		531,016	531,016			531,016
583	Overhead Line Expense		0	0		0	0			0
584	Underground Line Expense		0	0		0	0			0
585	Street Light & Signal Systems		0	0		0	0			0
586	Meter Expenses		0	0		0	0			0
587	Customer Installation Expense		0	0		0	0			0
588	Misc. Distribution Expenses	Sch D-3	13,407	0		13,407	13,407	0	0	13,407
589	Rents		0	0		0	0			0
	Subtotal		969,768	0		969,768	969,768	0	0	969,768
<u>Maintenance</u>										
590	Maintenance Super. & Engin.		0	0		0	0			0
591	Maint. of Structure		0	0		0	0			0
592	Maint. of Station Equipment	Sch D-3	380,693	0		380,693	380,693	0	0	380,693
593	Maint. of Overhead Lines		0	0		0	0			0
594	Maint. of Underground Lines		0	0		0	0			0
595	Maint. of Line Transformers		0	0		0	0			0
596	Maint. of Street Lights		0	0		0	0			0
597	Maint. of Meters		0	0		0	0			0
598	Maint. of Misc. Dist. Plant		0	0		0	0			0
	Subtotal		380,693	0		380,693	380,693	0	0	380,693
Total Distribution Expenses										
		Sch F-1	1,350,461	0		1,350,461	1,350,461	0	0	1,350,461

Acct No.	Description	Reference	Total Company (1)	Account Transfer (2)	Source (3)	Total (4)	Texas (5)	Production (6)	Transmission (7)	Distribution (8)
Customer and Information Expenses										
<u>Customer Accounts Expense</u>										
901	Supervision		0	0		0	0	0	0	0
902	Meter Reading Expense	Sch D-3	2,612	0		2,612	2,612	0	0	2,612
903	Customer Records & Collect.	Sch D-3	5,522	0		5,522	5,522	0	0	5,522
904	Uncollectible Accounts		0	0		0	0	0	0	0
905	Misc. Customer Account Exp.		0	0		0	0	0	0	0
	Subtotal		8,134	0		8,134	8,134	0	0	8,134
<u>Cust. Service & Information Expense</u>										
906	Customer Service & Information		0	0		0	0	0	0	0
907	Supervision		0	0		0	0	0	0	0
908	Customer Assistance		0	0		0	0	0	0	0
909	Inform. & Instruct. Adv. Exp.		0	0		0	0	0	0	0
910	Misc. Cust. Service & Information		0	0		0	0	0	0	0
	Subtotal		0	0		0	0	0	0	0
<u>Sales</u>										
911	Supervision		0	0		0	0	0	0	0
912	Demonstration & Selling Expense		0	0		0	0	0	0	0
913	Advertising Exp		0	0		0	0	0	0	0
916	Misc. Sales Exp		0	0		0	0	0	0	0
917	Sales Expense		0	0		0	0	0	0	0
	Subtotal		0	0		0	0	0	0	0
	Total Cust. Serv. & Information Expenses	Sch F-1	8,134	0		8,134	8,134	0	0	8,134

Acct No.	Description	Reference	Total Company (1)	Account Transfer (2)	Source (3)	Total (4)	Texas (5)	Production (6)	Transmission (7)	Distribution (8)
Administrative & General Expenses										
920	Admin. & General Salaries	Sch D-3	1,209,319	0	PAYXAG	1,209,319	1,209,319	548,807	507,059	153,453
921	Office Supplies		0	0		0	0	0	0	0
923	Outside Service		0	0		0	0	0	0	0
924	Property Insurance Exp.		0	0		0	0	0	0	0
	Property Ins.- Prod. Plant		0	0		0	0	0	0	0
	Property Ins.- General Plant		0	0		0	0	0	0	0
	Property Ins.- Distribution		0	0		0	0	0	0	0
	Property Ins.- Other		0	0		0	0	0	0	0
925	Injuries & Damages	Sch D-3	122,287	0	PAYXAG	122,287	122,287	55,496	51,274	15,517
926	Pensions & Benefits	Sch D-3	109,022	0	PAYXAG	109,022	109,022	49,476	45,712	13,834
928	Regulatory Commission	Sch D-3	345	0	TOTREV	345	345	0	122	223
929	Duplicate Charges (Credit)		0	0		0	0	0	0	0
930	Misc. General Expense	Sch D-3	660,021	0	PAYXAG	660,021	660,021	299,527	276,742	83,752
931	Rents		0	0		0	0	0	0	0
932	Maint. of General Plant	Sch D-3	289,155	0	GNLPLT-N	289,155	289,155	71,225	166,323	51,606
Total Administrative & General Expenses			2,390,149	0		2,390,149	2,390,149	1,024,530	1,047,233	318,386
Total Payroll Related Expenses			13,096,821	0		13,096,821	13,096,821	5,883,376	5,536,465	1,676,980

Payroll related expenses are allocated on this worksheet.

Regulatory is allocated as other revenue is.

Maintenance of General Plant is allocated as general plant is.

Other Administrative and General expenses are allocated as payroll excluding A&G are.

WP/D-5 CALCULATION OF EXCLUSIONS

South Texas Electric Cooperative, Inc.
Test Year Ending December 31, 2012

Acct No	Description	Total	Excluded
930.600	Assoc. of Texas Electric Cooperatives, Inc. Dues	11,497	
	Legislative Advocacy		45.52%
	Penalties & Fines		0.00%
	Social/Recreational		4.40%
	Political		15.39%
			5,233 to Sch D-5
			0
			506 to Sch D-5
			1,769 to Sch D-5
930.600	National Rural Electric Cooperative Association Dues	162,126	
	Legislative Advocacy		13.00%
	Penalties & Fines		0.00%
	Social/Recreational		0.00%
	Political		0.00%
			21,076 to Sch D-5
			0
			0
			0
	Total Account 930	173,623	28,585 to WP/D-2/1

Percentage of dues paid that went to Legislative Advocacy, Social/Recreational and Political are calculated by this work sheet.

WP/E-1/1 DEPRECIATION EXPENSE

South Texas Electric Cooperative, Inc.
Test Year Ending December 31, 2012

Acct No.	Description	Reference	Total Company (1)	Account Transfer (2)	Source (3)	Total (4)	Texas (5)	Production (6)	Transmission (7)	Distribution (8)
<u>Depreciation and Amortization Expense</u>										
Amortization										
			0			0	0			
Depreciation										
Steam Production										
310	Land & Land Rights		0	0	WP/E-1/1.1	0	0	0	0	0
311	Structure and Improvements	Sch E-1	40,268	6,686	WP/E-1/1.1	46,954	46,954	46,954	0	0
312	Boiler Plant Equipment	Sch E-1	909,734	151,045	WP/E-1/1.1	1,060,779	1,060,779	1,060,779	0	0
313	Engines/Engine Driven Gen.	Sch E-1	16,454	2,732	WP/E-1/1.1	19,186	19,186	19,186	0	0
314	Turbogenerator Units	Sch E-1	524,407	87,069	WP/E-1/1.1	611,476	611,476	611,476	0	0
315	Accessory Electric Equip.	Sch E-1	246,251	40,886	WP/E-1/1.1	287,137	287,137	287,137	0	0
316	Misc. Power Plant Equip.	Sch E-1	26,240	4,357	WP/E-1/1.1	30,597	30,597	30,597	0	0
Total Steam Production			1,763,355	292,774		2,056,129	2,056,129	2,056,129	0	0

Hydraulic Production

330	Land & Land Rights		0			0	0	0		
331	Structure and Improvements		0			0	0	0		
332	Reservoirs, Dams, and Waterways		0			0	0	0		
333	Water Wheels, Turbines, & Generators		0			0	0	0		
334	Accessory Electric Equip.		0			0	0	0		
335	Misc. Power Plant Equip.		0			0	0	0		
336	Roads, Railroads, and Bridges		0			0	0	0		
Total Hydraulic Production			0	0		0	0	0	0	0

Acct No.	Description	Reference	Total Company (1)	Account Transfer (2)	Source (3)	Total (4)	Texas (5)	Production (6)	Transmission (7)	Distribution (8)
Other Production										
340	Land & Land Rights		0	0	WP/E-1/1.1	227,959	0	0	0	0
341	Structure and Improvements	Sch E-1	228,085	(126)	WP/E-1/1.1	227,959	227,959	227,959	0	0
342	Fuel Holder, Producer & Acc	Sch E-1	77,231	(43)	WP/E-1/1.1	77,189	77,189	77,189	0	0
343	Prime Movers	Sch E-1	145,802	(80)	WP/E-1/1.1	145,722	145,722	145,722	0	0
344	Generator	Sch E-1	7,598,681	(4,186)	WP/E-1/1.1	7,594,495	7,594,495	7,594,495	0	0
345	Accessory Electric Equip.	Sch E-1	50,866	(28)	WP/E-1/1.1	50,838	50,838	50,838	0	0
346	Misc. Power Plant Equip.	Sch E-1	24,572	(14)	WP/E-1/1.1	24,558	24,558	24,558	0	0
	Total Other Production		8,125,237	(4,476)		8,120,761	8,120,761	8,120,761	0	0
	Total Production Plant		9,888,592	288,298		10,176,890	10,176,890	10,176,890	0	0
Transmission Plant										
350	Land and Land Rights		0	0		0	0	0	0	0
352	Structures and Improvements	Sch E-1	91,032	2,907	WP/E-1/1.1	93,939	93,939	0	93,939	0
353	Station Equipment	Sch E-1	1,638,454	52,315	WP/E-1/1.1	1,690,769	1,690,769	100,305	1,590,464	0
354	Towers and Fixtures		0	0		0	0	0	0	0
355	Poles and Fixtures	Sch E-1	3,218,820	102,775	WP/E-1/1.1	3,321,595	3,321,595	0	3,321,595	0
356	O.H. Conductors & Devices	Sch E-1	1,528,454	48,803	WP/E-1/1.1	1,577,256	1,577,256	0	1,577,256	0
357	Underground Conduit		0	0		0	0	0	0	0
358	Underground Conductors		0	0		0	0	0	0	0
359	Roads and Trails	Sch E-1	45	1	WP/E-1/1.1	46	46	0	46	0
	Others		0	0		0	0	0	0	0
	Total Transmission Plant		6,476,804	206,801		6,683,606	6,683,606	100,305	6,583,300	0

Acct No.	Description	Reference	Total Company (1)	Account Transfer (2)	Source (3)	Total (4)	Texas (5)	Production (6)	Transmission (7)	Distribution (8)
Distribution										
360	Land and Land Rights		0	0		0	0	0	0	0
361	Structures and Improvements	Sch E-1	17,821	1,020	WP/E-1/1.1	18,841	18,841	32	7,706	11,102
362	Station Equipment	Sch E-1	4,993,267	285,746	WP/E-1/1.1	5,279,014	5,279,014	9,048	2,159,288	3,110,678
363	Storage Battery Equipment		0	0		0	0	0	0	0
364	Poles, Tower & Fixtures		0	0		0	0	0	0	0
365	O.H. Conductors & Devices		0	0		0	0	0	0	0
366	U.G. Conduits		0	0		0	0	0	0	0
367	U.G. Conductors & Devices		0	0		0	0	0	0	0
368	Line Transformers		0	0		0	0	0	0	0
369	Service Drops		0	0		0	0	0	0	0
370	Meters		0	0		0	0	0	0	0
371	Install. on Customer Prem.		0	0		0	0	0	0	0
372	Leased Prop. on Cust. Premises		0	0		0	0	0	0	0
373	Street Lights & Signal Sys.		0	0		0	0	0	0	0
	Total Distribution		5,011,088	286,766		5,297,854	5,297,854	9,080	2,166,995	3,121,779
General Plant										
389	Land and Land Rights		0	0		0	0	0	0	0
390	Structures and Improvements	Sch E-1	601,695	(134,889)	WP/E-1/1.1	466,805	466,805	127,203	212,720	126,882
391	Office Furniture & Equip.	Sch E-1	226,854	40,854	WP/E-1/1.1	267,709	267,709	121,305	107,146	39,258
392	Transportation Equipment	Sch E-1	165,611	214,422	WP/E-1/1.1	380,033	380,033	172,202	152,102	55,729
393	Store Equipment	Sch E-1	11,445	6,313	WP/E-1/1.1	17,758	17,758	8,046	7,107	2,604
394	Tools, Shop & Garage Equip.	Sch E-1	34,441	18,999	WP/E-1/1.1	53,440	53,440	24,215	21,388	7,837
395	Laboratory Equipment	Sch E-1	62,891	34,693	WP/E-1/1.1	97,584	97,584	44,218	39,056	14,310
396	Power Operated Equipment	Sch E-1	149,374	64,859	WP/E-1/1.1	214,233	214,233	97,074	85,743	31,416
397	Communication Equipment	Sch E-1	490,072	270,341	WP/E-1/1.1	760,413	760,413	63,326	696,256	831
398	Misc. Equipment	Sch E-1	13,983	7,714	WP/E-1/1.1	21,697	21,697	9,831	8,684	3,182
	Total General Plant		1,756,366	523,306		2,279,672	2,279,672	667,420	1,330,204	282,048
	Total Depreciation & Amortization		23,132,850	1,305,172		24,438,022	24,438,022	10,953,696	10,080,499	3,403,827

Acct No.	Description	Reference	Total Company (1)	Account Transfer (2)	Source (3)	Total (4)	Texas (5)	Production (6)	Transmission (7)	Distribution (8)
<u>Taxes Other than Income Taxes</u>										
Non-Revenue Related										
	FICA		0	0		0	0	0	0	0
	FUTA		0	0		0	0	0	0	0
	Total Federal		0	0		0	0	0	0	0
	Property	Sch E-2	4,158,754	0	PLCSVC-NX	4,158,754	4,158,754	1,849,463	1,694,057	615,234
	Production		0	0		0	0	0		
	Transmission		0	0		0	0	0	0	0
	Distribution		0	0		0	0	0	0	0
	General		0	0		0	0	0	0	0
	Total Property		4,158,754	0		4,158,754	4,158,754	1,849,463	1,694,057	615,234
	State Unemployment		0	0		0	0	0	0	0
	Franchise		0	0		0	0	0	0	0
	Use Tax					0	0	0	0	0
	Other Non-Revenue		0	0		0	0	0	0	0
	Payroll					0	0	0	0	0
	Total Other Non-Revenue		4,158,754	0		4,158,754	4,158,754	1,849,463	1,694,057	615,234
Revenue Related										
	Taxes									
	Sales		0			0	0			
	Public Utility Commission					0	0			
	Occupational Street Rental					0	0			
	Total Revenue Related		0	0		0	0	0	0	0
	<u>Total Taxes Other than Income Taxes</u>	Sch A	4,158,754	0		4,158,754	4,158,754	1,849,463	1,694,057	615,234

Acct No.	Description	Reference	Total Company (1)	Account Transfer (2)	Source (3)	Total (4)	Texas (5)	Production (6)	Transmission (7)	Distribution (8)
Other Items										
	Interest on Customer Deposits					0	0			
	Decommissioning Expense					0	0	0		
Other Revenues										
447	Interruptible Service					0	0			
450	Forfeited Discount					0	0	0	0	0
451	Misc. Service Revenue		2,112,643	(2,112,643)	WP/D-2/2	0	0	0	0	0
453	Water and Water Power					0	0	0	0	0
454	Rent from Property		7,514	0	Sch F-4	7,514	7,514	0	5,208	2,306
456	Other		7,200	0	Sch F-4	7,200	7,200	0	0	7,200
	Wheeling Revenue		0			0	0		0	
	Ancillary Services Revenue					0	0			
	Subtotal		2,127,357	(2,112,643)		14,714	14,714	0	5,208	9,506

Account transfers are adjusted from totals and referenced to details.

Work sheet allocates depreciation expense, property tax expense, and other revenue to functions.

WP/E-1/1.1 DEPRECIATION EXPENSE ALLOCATION

South Texas Electric Cooperative, Inc.
Test Year Ending December 31, 2012

Acct No	Description	Plant Balance from WP/B-1/1	Percent of Plant	Year-End Depreciation Expense	Depr. Rate	Annualized Depreciation Expense	Adjustment	Allocated			Reference	Source
								Production	Transmission	Distribution		
Production Plant												
310	Land and Land Rights		0.00%	0	0.00%	0	0	0				
311	Structures & Improvements	1,565,141	2.28%	40,268	3.00%	46,954	6,686	46,954			WP/E-1/1	
312	Boiler Plant Equipment	35,359,312	51.59%	909,734	3.00%	1,060,779	151,045	1,060,779			WP/E-1/1	
313	Engines & Engine Driven Gen	639,524	0.93%	16,454	3.00%	19,186	2,732	19,186			WP/E-1/1	
314	Turbogenerator Units	20,382,537	29.74%	524,407	3.00%	611,476	87,069	611,476			WP/E-1/1	
315	Accessory Electric Equipment	9,571,234	13.96%	246,251	3.00%	287,137	40,886	287,137			WP/E-1/1	
316	Misc. Power Plant Equipment	1,019,888	1.49%	26,240	3.00%	30,597	4,357	30,597			WP/E-1/1	
	Total	68,537,636	100%	1,763,355		2,056,129	292,774	2,056,129	0	0		
Other Production												
340	Land and Land Rights		0.00%	0	0.00%	0	0	0				
341	Structures & Improvements	7,598,648	2.81%	228,085	3.00%	227,959	(126)	227,959			WP/E-1/1	
342	Fuel Holders, Producers. Acc.	2,572,952	0.95%	77,231	3.00%	77,189	(43)	77,189			WP/E-1/1	
343	Prime Movers	4,857,389	1.79%	145,802	3.00%	145,722	(80)	145,722			WP/E-1/1	
344	Generators	253,149,841	93.52%	7,598,681	3.00%	7,594,495	(4,186)	7,594,495			WP/E-1/1	
345	Accessory Electric Equipment	1,694,609	0.63%	50,866	3.00%	50,838	(28)	50,838			WP/E-1/1	
346	Misc. Power Plant Equipment	818,605	0.30%	24,572	3.00%	24,558	(14)	24,558			WP/E-1/1	
	Total	270,692,044	100%	8,125,237		8,120,761	(4,476)	8,120,761	0	0		
	Total Production	339,229,680		9,888,592		10,176,890	288,298	10,176,890	0	0		
Transmission Plant												
350	Land and Land Rights		0.00%	0	0.00%	0	0	0				
352	Structures & Improvements	3,415,968	1.41%	91,032	2.75%	93,939	2,907		93,939		WP/E-1/1	
353	Station Equipment	61,482,499	25.30%	1,638,454	2.75%	1,690,769	52,315	100,305	1,590,464		WP/E-1/1	
354	Towers and Fixtures	0	0.00%	0	2.75%	0	0		0			
355	Poles and Fixtures	120,785,282	49.70%	3,218,820	2.75%	3,321,595	102,775		3,321,595		WP/E-1/1	
356	Conductors & Devices	57,354,778	23.60%	1,528,454	2.75%	1,577,256	48,803		1,577,256		WP/E-1/1	
357	Underground Conduit	0	0.00%	0	2.75%	0	0		0			
358	Underground Conductors	0	0.00%	0	2.75%	0	0		0			
359	Roads and Trails	1,677	0.00%	45	2.75%	46	1		46			
	Other		0.00%	0	0.00%	0	0		0			
	Total	243,040,204	100%	6,476,804		6,683,606	206,801	100,305	6,583,300	0		

Acct No	Description	Plant Balance from WP/B-1/1	Percent of Plant	Year-End Depreciation Expense	Depr. Rate	Annualized Depreciation Expense	Adjustment	Allocated			
								Production	Transmission	Distribution	Source
<u>Distribution Plant</u>											
360	Land and Land Rights		0.00%	0	0.00%	0	0			0	
361	Structures & Improvements	654,184	0.36%	17,821	2.88%	18,841	1,020		7,706	11,102	WP/E-1/1
362	Station Equipment	183,299,083	99.64%	4,993,267	2.88%	5,279,014	285,746	9,048	2,159,288	3,110,678	WP/E-1/1
363	Storage Battery Equipment	0	0.00%	0	2.88%	0	0			0	
364	Poles, Tower & Fixtures	0	0.00%	0	2.88%	0	0			0	
365	O.H. Conductors & Devices	0	0.00%	0	2.88%	0	0			0	
366	Underground Conduit	0	0.00%	0	2.88%	0	0			0	
367	U.G. Conductors & Devices	0	0.00%	0	2.88%	0	0			0	
368	Line Transformers	0	0.00%	0	2.88%	0	0			0	
369	Services	0	0.00%	0	2.88%	0	0			0	
370	Meters	0	0.00%	0	2.88%	0	0			0	
371	Install. on Customer Premises	0	0.00%	0	2.88%	0	0			0	
372	Leased Prop. on Cust. Premises	0	0.00%	0	2.88%	0	0			0	
373	Street Lights	0	0.00%	0	2.88%	0	0			0	
Total		183,953,268	100%	5,011,088		5,297,854	286,766	9,080	2,166,995	3,121,779	
<u>General Plant (see WP/E-1/1.2; this excludes the Competitive Retail Depreciation Expense)</u>											
				(from WP/E-1/1.2)							
389	Land & Land Rights			0	0	0	0	0		0	
390	Structures & Improvements	15,560,182		601,695		466,805	(134,889)	127,203	212,720	126,882	WP/E-1/1
391	Office Furniture & Equipment	5,866,587		65,690		267,709	202,018	121,305	107,146	39,258	WP/E-1/1
392	Transportation Equipment	4,282,801		165,611		380,033	214,422	172,202	152,102	55,729	WP/E-1/1
393	Stores Equipment	295,963		11,445		17,758	6,313	8,046	7,107	2,604	WP/E-1/1
394	Tools, Shop & Garage Equipmer	890,665		34,441		53,440	18,999	24,215	21,388	7,837	WP/E-1/1
395	Laboratory Equipment	1,626,402		62,891		97,584	34,693	44,218	39,056	14,310	WP/E-1/1
396	Power Operated Equipment	3,862,891		149,374		214,233	64,859	97,074	85,743	31,416	WP/E-1/1
397	Communications Equipment	12,673,549		490,072		760,413	270,341	63,326	696,256	831	WP/E-1/1
398	Miscellaneous Equipment	361,616		13,983		21,697	7,714	9,831	8,684	3,182	WP/E-1/1
Total		45,420,654		1,595,202		2,279,672	684,470	667,420	1,330,204	282,048	
Total Classified Plant in Service		811,643,806		22,971,686		24,438,022	1,466,336	10,953,696	10,080,499	3,403,827	

Work sheet details depreciation expense year end and annualized based on year end asset balances for all assets. Also features adjustment from year end depreciation expense to annualized and allocates expense between functions.

WP/E-1/1.2 — GENERAL PLANT DEPRECIATION EXPENSE WORKPAPER

South Texas Electric Cooperative, Inc.
Test Year Ending December 31, 2012

Acct No	Description	Plant Balance from WP/B-1/1	Competitive Retail Plant from WP/B-2/1	Plant Balance excluding CR	Year-End Depreciation Expense	CR Depreciation Expense WP/D-2/2	Adjusted YE Depreciation Expense	Depreciation Rate	Annualized Depr. Expense excluding CR to WP/E-1/1.1
General Plant									
389	Land & Land Rights	0	0	0	0	0	0	0.00%	0
390	Structures & Improvements	15,560,182	0	15,560,182	601,695	0	601,695	3.00%	466,805
391	Office Furniture & Equipment	5,866,587	1,404,776	4,461,811	226,854	161,164	65,690	6.00%	267,709
392	Transportation Equipment	4,282,801	0	4,282,801	165,611	0	165,611	16.00%	380,033
393	Stores Equipment	295,963	0	295,963	11,445	0	11,445	6.00%	17,758
394	Tools, Shop & Garage Equipment	890,665	0	890,665	34,441	0	34,441	6.00%	53,440
395	Laboratory Equipment	1,626,402	0	1,626,402	62,891	0	62,891	6.00%	97,584
396	Power Operated Equipment	3,862,891	0	3,862,891	149,374	0	149,374	10.00%	214,233
397	Communications Equipment	12,673,549	0	12,673,549	490,072	0	490,072	6.00%	760,413
398	Miscellaneous Equipment	361,616	0	361,616	13,983	0	13,983	6.00%	21,697
	Total	45,420,654	1,404,776	44,015,878	1,756,366	161,164	1,595,202		2,279,672

Percent of 392 & 396 that is expensed: 55.46%

NOTES:

- Annualized Depreciation Expense = YE Plant Balance * Depreciation Rate
- For Accounts 392 & 396, Annualized Depreciation Expense = YE Plant Balance * Depreciation Rate * % Expensed

Work sheet to detail the deletion of CR assets and associated depreciation expense as well as listing depreciation expense year end and annualized based on end of year asset balances for general plant fixed assets.

WP/E-5 OTHER REVENUES

South Texas Electric Cooperative, Inc.
Test Year Ending December 31, 2012

Acct No	Description	Functionalization	Total	Production	Transmission	Distribution
450	Forfeited Discount	Direct	0			0
451	Miscellaneous Service Revenue	Direct	0			0
454	Rent from Property	(See Below)	7,514	0	5,208	2,306 to Sch F-4
456	Other Electric Revenue	Direct	7,200			7,200 to Sch F-4
456	Third Party Sales	Direct	0	0		
	Total Other Revenues		14,714	0	5,208	9,506

Acct No	Source	Description	Total	Production	Transmission	Distribution
454	AT&T	transmission; pole attachments	144		144	
454	Suddenlink	transmission; pole attachments	170		170	
454	JACKSON COUNTY SHERIFF	Account 362 location tower rentals	4,800		2,494	2,306
454	777 OPERATING COMPANY	transmission; tower space	2,400		2,400	
	Total Account 454		7,514	0	5,208	2,306

Work sheet itemizes and functionalizes details of Other Revenues.