MINUTES OF THE BOARD OF DIRECTORS MEETING

ORCAS POWER & LIGHT COOPERATIVE

Thursday, August 21, 2014

President Jim Lett called the meeting to order at 8:35 a.m. at the Lopez Fire Station. Directors Winnie Adams, Glenna Hall, Bob Myhr, Chris Thomerson and Jerry Whitfield were present. Vince Dauciunas was absent but gave his voting proxy to Jim Lett. Also present were General Manager Randy Cornelius, Assistant General Manager Foster Hildreth, Manager of Engineering and Operations Russell Guerry and Executive Assistant Bev Madan, serving as recording secretary.

Member/Guests
Anne Falcon, EES Consulting; Jay Kimball; Steve Ludwig; Dwight Lewis; Gabriel Jacobs; Lorrie Harrison; Ed Sheridan; Brian Silverstein; Sandy Bishop; Chom Greacen.
Each member was given the opportunity to speak.

Consent Agenda

- **Motion** made by Myhr and seconded to approve the Consent Agenda, which includes the July minutes and new members as listed. Motion carried by voice vote.

For the purpose of making a correction to the minutes:

- **Motion** made by Myhr to withdraw the motion to approve the Consent Agenda; motion was seconded and carried by voice vote.

July Minutes
Whitfield requested that the minutes be amended to state that the letter he had to distribute to the Board was an email provided by Alex MacLeod of Shaw Island.

- **Motion** made by Thomerson to approve the July minutes as amended. Motion was seconded and carried by voice vote.

New Members

- **Motion** made by Thomerson and seconded to accept the new members as listed. Motion carried by voice vote.

Center
1. Mangas, Jan

Crane
2. Halvorsen, Gretchen & Boyer
3. Shaiman, James

Lopez
4. Berg, Isaac
5. Dawson, Dawn
6. Fuller, Kurt & Enderle, Jan
7. Hanks, Renee & Miller, Steven
8. Lamb, Kendra
9. Leisy, Douglas & Matthews, Laura
10. Lopez Beach Cabin, LLC
11. Melzer, Sanford & Evans, Ellen
12. Pal, Caleb
13. Steinbrueck, Dave & Lisa

Orcas
14. Allred, Austin & Salt, Kya
15. Arbuckle, John
16. Bailey, Mark
17. Carter, Jerry & Linda
18. Chaney, Matt & Lewis, Sara
19. Clarke, Richard & Mueller, Nicole
20. Coleman, Gordon
21. Emerson, Suzan
22. Furr, Carol
23. Grant, Hugh & Gandara-Perea, Jose R
24. Hickey, Erin
25. Hidalgo, Micheal
26. House, Danny
27. Kennemer, Brian
28. Overlund, Jason
29. Shankman, Roy
30. Winn, Patricia

San Juan
31. Barnes, Michael
32. Bender, Barbara
33. Bergh, Jim
34. Boothney, Gregg
35. Boreen, Joshua Jayson
36. Borys, Henry J & Ewers, Keesha
37. Cicione, Joe
38. Durette, Sallie & Luc J
39. Erp, John D
40. Escherich, Susan
41. Green, Lonnie
42. Hernandez, Marrisa
43. Johnston, Rebecca M & Lemon, William C
44. Kaleidoscope Artistry
45. Kimsey, Robert Trustee, The Redoubt Trust
46. Klein, Chloe
47. Martel, Justin E
48. Martin, Bruce & Sheila
49. Morrell, Kathleen
50. Newsom, Sue
51. Pepka, Charles
52. Peterson, Lorien
53. Purdum, Elizabeth
54. Roche Starfish LLC
55. San Juan Sun Grown LLC
56. Scheer, Mark P & Amy
57. Schemmel, Michael & Tonia
58. Smith, Ryan M & Reifenstuhl, Alexis
59. Stewart, Slade
60. Swenson, Richard F & Louise V
61. Tappan, Sadie L
62. Vucich, John
63. Wilenken, Jennifer
64. Woodruff, Julie
65. Wright, Howard & Celina

Capital Credits

- **Motion** made by Myhr to approve payment of capital credits totalling $7,115.04 to the estates of deceased members listed below; motion was seconded and carried by voice vote.

  Dorothy N. Arbuckle............................. $2,404.47
  Cela B. Coleman $633.32

Louis M. Falb $1,460.43
Bill LaPorte $170.22
Benjamin G. Marcin $1,023.677
Antoinette A. Poulsen $1,422.93

RUS 219s

- **Motion** made by Myhr and seconded to approve submission of RUS Form 219s that include projects completed in June from the Construction Work Plan totaling $23,218.66. Motion carried by voice vote.

Board Response to Member Comments

- **Motion** made by Myhr to approve the following statement drafted by the Board and read aloud by President Lett; motion was seconded and carried by voice vote.

"The OPALCO Board of Directors has been aware of controversy surrounding letters sent during the past year by OPALCO's lawyers and would like to take this opportunity to clear up this matter.

OPALCO's legal counsel reports to the Board, and the Board of Directors is ultimately responsible for any action taken by OPALCO, its lawyers, and its management.

Two sets of letters have been discussed (sometimes without accurate distinction) in local blogs and newspapers. One letter was sent by OPALCO's legal counsel to Councilmember Bob Jarman in March of this year. That letter stemmed from Mr. Jarman's allegations regarding OPALCO in the local press. OPALCO's General Manager took issue with those allegations, and sent a response to Mr. Jarman, which also appeared in local media. This was followed up by a letter to Mr. Jarman by Art Butler, one of OPALCO's lawyers, expressing concern regarding the accuracy of statements made by Mr. Jarman, including those that seemed to indicate that the co-op was falsifying its accounting, a most serious allegation. The General Manager consulted with counsel, and requested that a letter be sent to Mr. Jarman in that regard.

The earlier communications were with John Bogert following his resignation from the OPALCO Board last September. Complaints have been made by some co-op members regarding one of two letters sent to Mr. Bogert by counsel, but there is significantly more context than these members have discussed. (The Board does not know whether anyone other than Mr. Bogert has seen either of these two letters.) The Board considers the release of these letters to the members to be within Mr. Bogert's prerogative, not that of the Board.

Immediately following Mr. Bogert' s resignation on September 26, 2013, Joel Paisner, an OPALCO attorney, wrote an informal letter to Mr. Bogert regarding confidentiality obligations in general and those that would remain in place even after a director left the Board. Mr. Paisner also had at least one specific telephone conversation with Mr. Bogert in this regard. Soon thereafter, Mr. Bogert published his letter of resignation, which, in Mr. Paisner's view, discussed matters specifically covered by confidentiality agreements with other parties. Mr. Bogert also testified before the County Council regarding CenturyLink and OPALCO's broadband projects on October 14, 2013. This prompted Mr. Paisner to send a second, more formal letter to Mr. Bogert. The Board President expressed misgivings about sending this letter, but ultimately delegated the decision to the best judgment of the Co-op's lawyers, and it was sent on October 14, 2013.

This letter did not in any way direct a former Board Member not to discuss why he left the OPALCO board. The issues raised in the correspondence from OPALCO's legal counsel related to specific binding Non-Disclosure Agreements and IRS disclosure requirements.

Recently, certain Co-op members have charged that purposeful misstatements were made by Board members and senior management at the Town Hall meeting on Shaw. By that time, memories of the events last fall were no longer fresh, and recollections of what was said at the Shaw meeting also differ, even among members of the Board. It is clear that both letters were being discussed more or less at the same time, however, and it is possible that questions and answers may have been misunderstood by the participants. Neither senior management nor any Board member has purposely misstated their roles in sending any of these letters.

The Board knows we can do better in communicating with our membership and are working to do so. We have learned from this experience, and we will be especially diligent in how our board manages direct communication to and from our legal counsel.

The Board and management group care deeply about OPALCO, our membership, the community, and the cooperative principles that guide our direction.

Interest has also been expressed about Board executive sessions. All governing bodies need to discuss topics that are confidential by tradition, business practice, or law. The National Rural Electric

Cooperative Association (NRECA) recognizes the necessity of board executive sessions, calling them a "key tool" in helping boards openly discuss sensitive and confidential matters.

The topics that were discussed in executive session this year fell into the following categories: personnel issues; a report subject to a confidentiality agreement; Labor & Industries (L&I) matters; information subject to privilege; and sensitive business negotiations.

OPALCO is making great strides in making information available through the OPALCO website. Few other electric co-ops in Washington have as much available public information as OPALCO. We welcome comments, suggestions, and constructive criticism in order to foster the best possible member communication."

After the statement was read, member/guest Harrison asked if the statement meant that the Board was standing by the "threatening letters" and that the Board was not offering an apology. Hall commented that Harrison's question contained a judgment by calling the letters "threatening". Harrison answered that her words were "the letters that threatened action". Lett responded "yes, that is correct" to both of Harrison's questions; it was noted that the Board has a fiduciary duty to protect OPALCO from outside lawsuits. Whitfield requested that the record show that although he facilitated the discussion, (in order to elicit a response from the Board to recent criticisms), during the period in question he was not on the Board nor was he present during any of the events mentioned.

Several audience members expressed that they still felt the Board should offer an apology.

Comments were also made regarding the Board's executive sessions during the past few years; these did not differ from topics routinely discussed during executive sessions through the years. Myhr stated that executive sessions were the normal course of doing business to discuss, among other things, topics that were bound by confidentiality agreements. The Board is representing members in the best way possible, and not trying to keep secrets but rather trying to protect the members. It was questioned why the Board would have confidentiality agreements; the response was that they were requested by the other parties, not OPALCO and are a necessary part of doing business.

Auditor Engagement
Moss Adams presented an engagement letter for audit and non-attest services for fiscal year 2014. Their proposal includes:

Audit services fees	26,300
Tax Services	3,900
Audit and tax preparation	$30,200
Out of pocket expenses (estimated)	5,300
Total	$35,500

- **Motion** made by Myhr to approve execution of Moss Adams' engagement letters; motion was seconded and carried by voice vote.

Rate Design
Ann Falcon of EES Consulting presented proposed rate design and impacts as the latest steps in the rate design process. During the past month, EES used actual bills to determine the impact an increase in rates would have to each category. Included were examples of residential, commercial, time of use and pump rates. The rate design process includes determining an overall rate adjustment of 6% by March 1, 2015 with demand charges and conservation price signals while at the same time simplifying the rate schedules. Members are invited to comment during September and October, with new rates introduced as part of the 2015 budget process. New rates are expected to be applied with the March 2015 billing cycle.
The challenge will be to educate members on a "demand" charge.

Strategic Directives
Thomerson suggested revisions to the Strategic Directives as follows:

7A OPALCO rate structure shall decouple fixed and variable costs and fairly allocate the significant separate system costs such as energy, demand, and facilities charges, to be brought substantially in line before the end of the current BPA contract in 2028.; and

13 OPALCO develop and fund relevant targeted goal driven programs, with measured deliverables and known financing requirements, to drive desired specific end results advantageous for the membership, such as Energy Efficiency, Local Renewable Generation, carbon footprint reduction, wise energy use, reduced member financial stress, etc.

Falcon suggested that if the Board unbundles the rates that the bill show the power component and the delivery charge.
For #13 the concern is that funding may not be available for energy efficiency and PAL; a solid plan is needed for both programs.
Discussion will continue at a later meeting. All Strategic Directives are to be reviewed.

Policy 29 *Energy Rate Design*
This policy was offered as a template to use as one step in the process of rate design and is merely a draft on which to begin. Determination should be made where it is appropriate to include rates for funding programs and what percentage of the system is used by each rate category. Staff will present revisions at a future meeting.

Policy 14 *Interconnection of Member Generators*
The draft revisions are presented for discussion only at this meeting; a final draft will be presented for approval at the September meeting.
Minor edits are necessary to accommodate growing Member Generator system capacity, including clarification of incentive pools.

Policy 19 *Family Medical Leave*
The draft revisions are presented for discussion only at this meeting; a final draft will be presented for approval at the September meeting.
Revisions incorporate workplace breastfeeding as required by law.

2nd Quarter Financials
This report is postponed until the September meeting.

The meeting adjourned to Executive Session at 12:05 p.m.
The regular meeting resumed at 12:50 p.m.

General Manager Contract

- **Motion** made by Hall to enter into an employment contract with Foster Hildreth based on the draft submitted via email August 20 with the following caveats: 1) Severance pay will be a one-year term; 2) subject to the Board's individual review over the next five days which will allow for questions; and 3) any annual increase to be based on performance (page 1 of Attachment A, §B paragraph 1). Motion was seconded.

It was the consensus of the Board that there was full and complete confidence that Hildreth will do a great job for OPALCO.

The vote was 5 Aye (including a vote by proxy) and 2 Nay. One dissenting director stated that the nay vote was in opposition to having a contract.

Reports
Cornelius recommended suspending the remainder of the agenda.
He reported on an accident that occurred on San Juan Island when a lineman fell from a bucket truck and will be recovering at home for the next several months.
Energy efficiency/conservation will follow the BPA program but will be self-funded, likely within the next year.
BPA reports to Cornelius that OPALCO will likely avoid TIER 2 allocation due to our conservation efforts. If our High Water Mark (HWM) is lowered for the next two years, it may put us into TIER 2.

Cornelius Retirement
This meeting was Randy Cornelius' last board meeting, he was presented with a card and gift from the Board. Cornelius thanked everyone and said he has thoroughly enjoyed his time with OPALCO, thanking Myhr for being part of the Board that hired him. Cornelius' tenure has improved OPALCO's reputation within the industry; he is well respected wherever he goes and he will be missed.

Adjournment
Lett adjourned the meeting at 1:05 pm.

Jim Lett, President

Jerry Whitfield, Secretary-Treasurer