



**BOARD OF DIRECTORS
REGULAR BOARD MEETING 8:30 am
OPALCO Office
1034 Guard Street, Friday Harbor
Thursday November 21, 2013**

TRAVEL



Via Island Air
378-2376 / 378-8129 (cell)

To:

Leave Lopez 8:00 am

Arrive Friday Harbor 8:15 am

From:

Leave Friday Harbor 2:00 pm

Arrive Lopez 2:15 pm



Via Ferry:

To:

Leave Lopez 6:55 am
Orcas 7:35 am

Arrive Friday Harbor 8:15 am

From:

Leave Friday Harbor 2:20 pm

Arrive Orcas 3:10 pm
Arrive Lopez 3:45 pm

**Orcas Power & Light Cooperative
Board of Directors
Regular Monthly Meeting
OPALCO Board Room, 1034 Guard Street, Friday Harbor
November 21, 2013 8:30 a.m.**

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ADJOURNMENT

MINUTES OF THE BOARD OF DIRECTORS MEETING

ORCAS POWER & LIGHT COOPERATIVE

Thursday, October 24, 2013

President Chris Thomerson called the meeting to order at 8:20 a.m. at the Eastsound OPALCO office. Directors Winnie Adams, Vince Dauciunas, Glenna Hall, Jim Lett and Bob Myhr were present. Also present were General Manager Randy Cornelius, Assistant General Manager Foster Hildreth and Executive Assistant Bev Madan, serving as recording secretary.

Nourdine Jensen Youth Scholarship

Recipients of the 2013 Nourdine Jensen Youth Scholarship were introduced by Suzanne Olson, Communication Specialist. Maya Burt-Kidwell (Orcas) and Bree Swanson (Lopez) reviewed their week at the College of Idaho and expressed their appreciation for the opportunity. A third recipient, Brodie Miller (Orcas), and Youth Director Cameron Schuh were unable to attend. Olson announced that each of the three representatives from OPALCO was awarded \$400 scholarships. Schuh was awarded a \$600 scholarship as a director and was elected President of the directors. Burt-Kidwell was elected to return as a youth director in 2014.

Member/Guests

Dwight Lewis, Gray Cope, Steve Ludwig, John Fleischer, John Ashenhurst, and Jay Kimball were introduced and given an opportunity to speak.

Attorneys Joel Paisner and Art Butler were present.

September Minutes

Motion: Myhr moved to accept the September minutes as corrected; the motion was seconded and carried by voice vote.

New Members

Motion: Myhr moved to accept the new members listed below; the motion was seconded and carried by voice vote.

Blakely

1. Howlett, Jeffery

Decatur

2. Kastner, Laura & Mease, Philip
3. Kennelly, Willam

Lopez

4. Chalker, Carla
5. Dobmeier, Tracy & Eric
6. Flynn, Brendan
7. Kester, Kathryn S & David
8. Maciel, Ramiro Rosas
9. Nansen, David & Sheri
10. Peabody, Eve & Tim
11. Rovente, Crystal & Anthony

Orcas

12. Ahrens, John
13. Ashby, Laurel & Pongo, Bill
14. Butler, David A
15. Clark, Mary S
16. Clarke, Melsa & Tamayo-Wolf, Alex
17. Cooper, Toby
18. Garcia, Carlos
19. Golden Tree Farm LLC
20. Hamilton, Bryce & Jennifer
21. Hirani, Moyez & Ford, Dee
22. Hoffart, James Richard
23. McIntosh, Bruce A
24. Morris, Jeanne
25. Nigretto, Ronald
26. Ripley, Greg & McCune, Grace
27. Vader, Joan

San Juan

28. Bizloan America LLC
29. Bryan, Donald & Kim
30. Buechner, Nancy C
31. Burkett, Jacob
32. Carelton, Steven
33. Carter, Thomas R
34. Coleman, Louis A & Julia
35. Falls, Nick
36. Gatley, Bruce
37. Harshberger, Gary
38. Jenne, Tony
39. Massey, James
40. Moon Kuster, Vanessa & Jones, Christopher
41. Olson, Jennifer
42. Paneris, Chris
43. Patsis, Jean M & C. Paul
44. Pedersen, Janine
45. Reveles, Alicia
46. Shubert, Stephen
47. Staudt, Jennifer Lynn
48. Stroh, Jill
49. Zamudio Martinez, Amalia & Santiago, Miguel

Shaw

50. Messenger, Marcia & David
51. Picnic Cove LLC

Moss Adams LLP Auditor

Thomerson noted that he was extremely pleased with their job performance and depth of work. He noted that it is a testament to Cornelius’ efforts to have a high quality staff and to provide them educational opportunities.

Darlington will remain as the lead but the field staff will be rotated.

Motion: Adams moved to approve execution of Moss Adams’ engagement letter; the motion was seconded and carried by voice vote.

Capital Credits

Motion: Myhr moved to approve \$7,187.57 in payment of capital credits to the estates of deceased members listed below; the motion was seconded and carried by voice vote.

| | |
|-------------------------|------------|
| Carson J. DeVries | \$757.60 |
| Ian K. Gatley | \$447.64 |
| Robert Greenway | \$5,611.32 |
| Barbara MacBryer | \$371.01 |

Strategic Directives

The Strategic Directives were revised at the Board retreat held October 10-11. After discussion it was determined that some could be made more concise. Directors agreed to review them and put them on the agenda at a future Board meeting.

Myhr moved to add Directives 1 and 2; the motion was seconded and carried by voice vote:

Directive No. 1 Safety “Safety is job #1” and;

Directive No. 2 Sustainable Power Supply Strategy “OPALCO will maintain a long term evolving strategic power supply resource plan to provide safe, adequate, reliable, advantageously priced power including appropriate mitigation of source risk, economic, climate and energy policy uncertainty.

To that end, we will:

- Maintain BPA as our primary long-term power supplier
- Investigate and form relationships with alternate suppliers of power
- Implement energy efficiency and conservation programs as a cost effective power resource. These include member projects, BPA programs, and OPALCO infrastructure improvements.
- Encourage local generation installations consistent with our OPALCO grid operations.”

Annual Meeting 2014

Myhr moved to set the date of the 2014 annual meeting as Saturday, May 3, 2014; the motion was seconded and carried by voice vote.

Myhr moved to set the deadline for absentee voting as noon, Friday, May 2, 2014; the motion was seconded and carried by voice vote.

Myhr moved to request that AterWynne send the appropriate person to act as parliamentarian at the 2014 annual meeting; the motion was seconded and carried by voice vote.

Myhr moved to appoint Doug Pearson as tally chair at the 2014 annual meeting; the motion was seconded and carried by voice vote.

RUS 219

Motion: Myhr moved to approve the RUS 219 representing work completed during August from the Construction Work Plan (CWP) in the amount of \$188,774.29; the motion was seconded and carried by voice vote.

**OPALCO Policy 1 *Functions of the Board of Directors* and
OPALCO Policy 23 *Conflict of Interest***

As part of a review of the OPALCO policies, suggested revisions were made to Policies 1 and 23. The Board reviewed the policies and plan to revisit them for further consideration with additional suggested edits incorporated.

OPALCO Policy 29 *Code of Business Conduct and Ethics*

This policy was created and introduced by the attorneys. Any comments or suggestions are to be sent to Hildreth.

Directors’ Stipend

Staff requested an annual review prior to the 2014-15 budgetary process. The Board consensus was that it was not appropriate to increase the current stipend during these economic times.

Motion: Myhr moved that the Directors’ stipend remain unchanged; the motion was seconded and carried by voice vote.

Safety

Cornelius reviewed the Safety Report. An investigation into the accident on Lopez where a lineman cut an energized underground conductor is not complete so could not be discussed in detail. Cornelius will inform the Board when the investigation is completed by Labor & Industries. OPALCO is making steps to improve safety and thanked the Board for being supportive and allowing the purchase of any equipment needed.

The Board reiterated that Cornelius should do whatever is needed to maintain safety as our No. 1 priority.

Cornelius noted that OPALCO will join NRECA’s Rural Electric Safety Achievement Program (RESAP) which offers peer review of our Safety Program.

Manager’s Report

Member Services will give a demonstration of SmartHub, an app for the smart phone, to the Board when it is ready to be launched to the membership.

Cornelius announced that the new Manager of Information Services will begin work February 17, 2014.

Beth Anderson is to be commended for the work she has accomplished over the years with a staff of three.

Hildreth reviewed the website analytics provided by the web design team PixelSpoke. There has been an increase of 36% of web use in 2013. It was noted that the six-year evolution of the website is extraordinary.

Cornelius reviewed the third quarter Energy Efficiency Incentive (EEI) report, noting that Anne Bertino, Assistant Manager of Energy Services, will be leaving in November and will be a significant loss to OPALCO.

During the last biennium OPALCO has given out \$680,000 in energy rebates to our members.

Adjournment

The Board went into Executive Session at 12:30 p.m.

The regular meeting reconvened at 1:50 p.m. and was adjourned.

Chris Thomerson, President

Jim Lett, Secretary-Treasurer

New Members October 2013

Decatur

1. Razwick, Jeff & Nicholle

Lopez

2. Bautista, David & Hernandez, Alejandro
3. FJM LLC
4. Fox, Rosa B
5. Garcia, Jean & Hanenburg, Cheryl
6. Greer, Marilyn A
7. Lombard, James
8. O'Bryant, Nicole
9. Phillips, Theodore J
10. Santiago, Celine & Vincent
11. Taylor, John H & Karen F
12. Wooldridge, James
13. Zunser, Bruce

Orcas

14. 342 Deer Harbor Road Trust
15. Ahrens, John
16. Aslett, Jennifer
17. Barrientos, Marcela & Andrews, Edward
18. Bartmasser, Brett
19. Bechtel, Michelle
20. Buck, Mariah
21. Café Olga
22. Conlan, Edward & Vivien L
23. Davis, Obye
24. Duffield, James E & Linda J
25. Frizzell, Janine & Chandler, Chad
26. Hookstratten, Jon & Marion
27. Johnson, Daryl
28. Lucey, Kevin Crossen, Colleen
29. Lyons Properties LLC
30. McTavish, Doug
31. Michnich, Marie Luce, Bryan
32. Moore, Emelia
33. Pearson, Brian
34. Plemmons, Troy & Curran, Melanie
35. Pollock, Bill
36. Rook, Jayme N & Glenn
37. Smith, Cody
38. Spitalli, Jodi & Marty, Daniel
39. Tarkington, Amanda
40. Wiley, David & Henriksen, Nicholas
41. Ellis-Smith, Stephanie & Smith, Douglas
42. Landsman, Barton
43. Marl, Brett

San Juan

44. Boysza, Paul
45. Brown, Todd & Mac Clean, James
46. Bush, Christine Marion
47. Clise, Robert & Susan
48. Cook, Nadine Marie
49. Corrin, Nicholas
50. Cristanto, Catherine
51. Davis, Joseph S.
52. Dean, Priscilla
53. Dodge, George R
54. Dunbar, Cynthia & White, Randy
55. Eantage Direct Corp
56. FedEx Ground Package System Inc
57. Feinson, Diana
58. Friday Harbor Athletic Association
59. Frymire, Daniel & Graham, Erin C
60. Fuller, Daniel
61. Garcia, Miguel A
62. Gillogley, Nolan H
63. Godby, Jennifer
64. Gray, Janet
65. Greenway, John
66. Hall, Fred D
67. Harrell, Norris Foster
68. Hill, Bonney
69. Holtman, Frances
70. Jackson, Ray
71. KIAMOVICH, Howard R & Bergner, Hannah Martha
72. Love, Stanley G
73. Ludwig, Theresa
74. M & M Rentals, LLC
75. McDowell, Kathy & John
76. McGarry, Janelle
77. Montana, Laurie
78. Nelson, Henry & Margaret
79. Padilla, Dennie
80. Property 1st
81. Radden, Khaili Jolene
82. Reyner, Leonard
83. Riley, Dean & King, Brynlee
84. Smith, Stacey Lee
85. Sound Maintenance
86. Spaulding, Laurie
87. Thomas, Steven
88. Walker, Bret A
89. Woffinden, Dallas & Marie
90. Yacht Haven Water Cooperative

Date: November 21, 2013
To: Randy Cornelius, General Manager
From: Foster Hildreth, Assistant General Manager
Re: Applying Member Capital Credits to Associated Uncollectable Accounts

Our Member Services Department has completed the task of transferring delinquent inactive accounts to an uncollectable account (UA) status. Our next step in this process is to proportionately apply previously allocated member capital credits to UA balances.

It is important to note that our billing software “flags” accounts and associated capital credit payment processes when member accounts are transferred to the status of uncollectable. When our Accounting Department processes the year-end check run to pay allocated member capital credits, our software will first pay uncollectable account balances before issuing a capital credit check for any remaining balance.

Discounted capital credit balances are attached as soon as the collection efforts described in our Member Services Policies fail. The member account balances transferred to UA between 11/3/12 and 11/12/13 amount to \$27,426.

We are hereby requesting that \$6,487 of member capital credits be applied to UA balances. The member capital credit allocation transfers are as follows:

| | |
|---|-----------------|
| Capital Credits Applied to UA Balance | \$ 6,487 |
| Discounted Capital Credits Transferred to OPALCO Equity Account | 35,719 |
| Total Capital Credits Retired | \$42,206 |

We recommend the Board make a motion to approve the use of member allocated capital credits to reduce and/or offset individual member delinquent UA balances as referenced in the Capital Credit /Bad Debt Payment Program report.

Following is a summary of 11/2/12 to 11/12/13 UA activity:

| | |
|--|------------------|
| Beginning UA Balance 11/2/2012 | 298,771 |
| UA Write Off 11/3/12 – 11/12/13 | 27,426 |
| UA Payments collected 11/3/12 – 11/12/13 | (8,815) |
| Capital Credits to Apply | (6,487) |
| Ending UA Balance 11/12/2013 | \$310,894 |

MEMORANDUM

Date: November 14, 2013

To: Board of Directors

From: Randy J. Cornelius
General Manager

Re: Capital Credit General Retirement

The purpose of this memorandum is to obtain Board approval to fund the general retirement of capital credits covering the year 1988. This will continue our 25-year retirement rotation, which is to retire older years first.

The remaining capital credit allocation for 1988 equals \$893,487, due to member relocations and incomplete estate information. OPALCO will only be able to track down a portion of the total 1988 member's capital credit allocations. Using last year as a gauge, we expect approximately 71.26% of the allocation will generate a check for a total of \$636,682, with eventually 91.07% actually be cashed, for a total of \$579,835. We will set aside \$580,000 from cash for this expenditure. See attached for capital credit history to date.

Staff is requesting that the board approve the payment and retirement of capital credits representing the year 1988.

ORCAS POWER AND LIGHT COOPERATIVE

CAPITAL CREDIT PAYMENT PROJECTIONS (Based on historical payout figures)

| | A. | B. | C. | D. | E. | F. |
|----|-------|--------------------------------|--|--|------------------------------------|---------------------------------|
| | Year | General Retirement | | | | Projected Cashed (91.07%) |
| | | Patronage Capital Margin | Un-Retired Patronage Allocations | Expected Payout Year (25 year cycle) | Projected Check Run (71.26%) | |
| 1 | 1988 | 1,014,589 | 893,487 | 2013 | 636,682 | 579,835 |
| 2 | 1989 | 1,074,042 | 953,091 | 2014 | 679,155 | 618,515 |
| 3 | 1990 | 1,271,253 | 1,135,987 | 2015 | 809,483 | 737,206 |
| 4 | 1991 | 1,240,179 | 1,117,447 | 2016 | 796,272 | 725,175 |
| 5 | 1992 | 678,952 | 616,123 | 2017 | 439,038 | 399,837 |
| 6 | 1993 | 1,794,893 | 1,637,675 | 2018 | 1,166,977 | 1,062,781 |
| 7 | 1994 | 1,626,404 | 1,490,896 | 2019 | 1,062,385 | 967,527 |
| 8 | 1995 | 673,206 | 619,917 | 2020 | 441,741 | 402,299 |
| 9 | 1996 | 1,668,737 | 1,549,430 | 2021 | 1,104,095 | 1,005,514 |
| 10 | 1997 | 1,592,023 | 1,479,040 | 2022 | 1,053,936 | 959,833 |
| 11 | 1998 | 1,795,597 | 1,673,958 | 2023 | 1,192,832 | 1,086,327 |
| 12 | 1999 | 1,709,360 | 1,603,337 | 2024 | 1,142,508 | 1,040,497 |
| 13 | 2000 | 2,071,885 | 1,952,026 | 2025 | 1,390,977 | 1,266,780 |
| 14 | 2001 | 1,268,440 | 1,195,457 | 2026 | 851,860 | 775,800 |
| 15 | 2002 | 1,525,044 | 1,442,692 | 2027 | 1,028,036 | 936,245 |
| 16 | 2003 | 750,133 | 712,224 | 2028 | 507,517 | 462,202 |
| 17 | 2004 | 2,050,235 | 1,956,257 | 2029 | 1,393,993 | 1,269,527 |
| 18 | 2005 | 2,134,941 | 2,047,882 | 2030 | 1,459,283 | 1,328,987 |
| 19 | 2006 | 1,958,082 | 1,885,678 | 2031 | 1,343,699 | 1,223,724 |
| 20 | 2007 | 1,847,470 | 1,779,729 | 2032 | 1,268,202 | 1,154,968 |
| 21 | 2008 | 1,669,719 | 1,613,516 | 2033 | 1,149,762 | 1,047,103 |
| 22 | 2009 | 2,846,979 | 2,765,880 | 2034 | 1,970,915 | 1,794,937 |
| 23 | 2010 | 1,429,103 | 1,396,357 | 2035 | 995,018 | 906,175 |
| 24 | 2011 | 2,934,653 | 2,898,088 | 2036 | 2,065,124 | 1,880,734 |
| 25 | 2012 | 814,524 | 813,283 | 2037 | 579,530 | 527,786 |
| 26 | 2013 | | | 2038 | | |
| | Total | \$ 39,440,442 | \$ 37,229,457 | | \$ 26,529,019 | \$ 24,160,313 |

MEMORANDUM

October 31, 2013

TO: Board of Directors
FROM: Randy Cornelius, General Manager
RE: RUS Form 219s *Inventory of Work Orders*

Projects were completed from the Construction Work Plan:

Inventory #201309 September 2013 \$ 25,840.81

Staff requests a motion from the Board to approve submittal of RUS Form 219 totaling \$25,840.81.

MEMORANDUM

October 25, 2013

TO: Board of Directors
FROM: Randy J. Cornelius
RE: Policies 7 and 16 Draft Revisions

Draft revisions to Policy 7 *Employee Expense Reimbursements* draft revisions are changed due to language in the new collective bargaining unit contract that goes into effect January 1, 2014.

Policy 16 *Directors' Stipend, Reimbursements and Benefits* has draft revisions to change the meal reimbursement to either reimbursement with submitted receipts OR the prevailing IRS per diem rates. Directors will no longer be able to "mix and match" their reimbursement for meals.

ORCAS POWER AND LIGHT COOPERATIVE
POLICY 7
EMPLOYEE EXPENSE REIMBURSEMENTS
Draft Revisions

7.1 GOALS AND OBJECTIVES

To establish a basis upon which the employees may be reimbursed for expenses incurred while travelling on cooperative business.

7.2 POLICY

- 7.2.1 All travel expenses shall be approved by the General Manager or his/her designee before the travel can commence.
- 7.2.2. The General Manager or his/her designee shall pre-approve the mode of transportation. Air travel shall not exceed the cost of coach class airfare. The use of a rental car shall be reimbursed at cost plus insurances. For the use of private vehicles mileage shall be reimbursed at the prevailing IRS rate.
- 7.2.3 Housing shall be reimbursed at cost, based upon presentation of receipts. In general, the cooperative will make hotel reservations for all employees traveling on cooperative business and the General Manager or his/her designee shall approve the reimbursement.
- 7.2.4 General Manager's meal expense can be reimbursed at cost with submitted receipts for each meal. Or he/she may choose to receive a per diem for meals in lieu of receipts, which shall be based on the prevailing IRS rates
- 7.2.5 Employees' meal expenses can ~~will~~ be reimbursed on a per diem basis, which ~~will be based on the prevailing IRS~~ **per diem** rates. ~~Or they may choose, if applicable, to receive the reimbursement rate then in effect under the collective bargaining agreement. If meals are offered by the hotel or by the event, no reimbursement for those meals will be given.~~
- 7.2.6 Other "out of pocket" expenses, such as parking, registration fees, taxis, etc. shall be reimbursed after an itemized list and receipts are submitted. However, any expenses deemed unreasonable will not be reimbursed or, alternatively, will be reduced to a reasonable level.
- 7.2.7 If applicable, the Collective Bargaining Agreement for reimbursements shall apply.

7.3 RESPONSIBILITY

The General Manager shall be responsible for the implementation of this policy.

Randy J. Cornelius, General Manager

Effective Date: December 19, 2013

ORCAS POWER AND LIGHT COOPERATIVE

POLICY 16

DIRECTORS' STIPEND, REIMBURSEMENTS and BENEFITS

Draft Revisions

16.1 GOALS AND OBJECTIVES

This policy establishes the amounts that directors will receive for their stipend, reimbursements, and benefits while serving on the Board of Directors of Orcas Power and Light Cooperative.

16.2 MEETING STIPEND

16.2.1 Directors shall receive a stipend of \$250 per OPALCO board meeting attended.

16.2.2 Directors shall receive \$200 per day for conferences, trainings, or meetings attended on behalf of the cooperative, including travels days.

16.3 TRAVEL REIMBURSEMENT

16.3.1 Board members have the option of choosing the mode of transportation. Air travel shall not exceed the cost of coach class airfare. The use of a rental car shall be reimbursed at cost plus insurances. For the use of private vehicles, mileage shall be reimbursed at the prevailing IRS rate.

16.3.2 Housing shall be reimbursed at cost, based upon submitted receipts. In general, the cooperative will make hotel reservations for all board members traveling on cooperative business.

16.3.3 ~~Food costs~~ Meals can be reimbursed at cost with submitted receipts; ~~for each meal or, in lieu of receipts,~~ the Board members may choose to receive a ~~the prevailing IRS~~ per diem ~~rate~~ for meals. ~~in lieu of receipts, which shall be based on the prevailing IRS rates.~~

16.3.4 Other "out of pocket" expenses, such as parking, registration fees, taxis, etc. shall be itemized and receipts submitted. If the receipt is not available, an explanation of the expense shall be included when filing for reimbursement.

16.4 BENEFITS

16.4.1 Participation in OPALCO's health care plan is optional.

16.4.2 Directors may continue to receive health care coverage after serving on the board, with 100% of the cost of such coverage paid by the former director wanting coverage.

16.4.3 OPALCO shall provide, at its expense, 24 hour business/travel life insurance coverage for directors.

16.5 RESPONSIBILITY

The General Manager is responsible for ensuring that directors receive the proper stipend, reimbursements, and benefits. Each director shall be issued an IRS Form 1099 each calendar year stating the amounts received from OPALCO which are subject to federal income tax.

Randy J. Cornelius, General Manager

Effective Date: December 19, 2013

MEMORANDUM

November 14, 2013

TO: Board of Directors

FROM: Foster Hildreth

RE: Ratification of Email Vote

As a response to the CenturyLink cable failure, the following email was sent on November 7:

“Unless we hear that CenturyLink expects to have internet/DSL service restored on San Juan Island in the next day or so, I am proposing a temporary free Wi-Fi service offering to meet the short-term needs of our members and potentially keep essential businesses running during the interim.

- 1) Offer public Wi-Fi access to our San Juan Island members at the SJI OPALCO office for members to come with their own devices to connect (via installing exterior Wi-Fi antennas to allow additional access).*
- 2) Install temporary Wi-Fi transmitters in strategic locations throughout San Juan Islands where Island Network has existing fiber facilities/member connections to provide wireless access to the Internet to our members and businesses.*

These would be temporary actions that would allow OPALCO to rise to the occasion and do what’s right for our community. OPALCO has a unique opportunity to demonstrate to the community the power of our robust data communications network, our expertise in this area, our productive cooperation with others and our ability to meet the needs of our members.

I am requesting each Board member to authorize staff (via a “Yea” or “Nay” response to this email) to expend an unbudgeted amount not to exceed \$10,000 in order to deliver temporary internet solutions to our membership.”

Board members responded with 5 “yea” votes.

Discussion: CenturyLink Cable Break

Discussion: Broadband Deployment Options

MEMORANDUM

November 15, 2013

TO: Board of Directors
FROM: Randy J. Cornelius
RE: 2014 Budget Report

The 2014 budget will be sent to the Board on Monday, November 18 for your review and discussion at the November 21 Board meeting.

The budget report is comprised of 2014 budgetary figures, along with 2015 and 2016 forecasts. We look forward to reviewing our figures/assumptions at the November meeting.

Staff recommends that the Board make a motion to approve the 2014 Budget.

MEMORANDUM

November 14, 2013

TO: Board of Directors
FROM: Randy J. Cornelius
RE: Mission Statement

The Board discussed and agreed to a new mission statement at the retreat in October. In order to finalize the process of changing the mission statement, staff requests a motion to approve the new mission statement.

The new mission statement:
"Powering the San Juans"

Former mission statement:
"Orcas Power & Light Cooperative (OPALCO) serves our Members with safe, reliable, cost effective and environmentally sensitive electric utility services."

MEMORANDUM

Date: November 15, 2013

To: Board of Directors

From: Randy Cornelius, General Manager

Re: 2013 Third Quarter Financials

The 2013 third quarter financial results are being sent as a separate file for review prior to the Board meeting. Included in the report are the Balance Sheet, Statement of Operations (along with a Notable Drivers analysis), Statement of Cash Flow (abbreviated), Island Network Financial Tracking Tool, Capital Projects Budget, Broadband expenses through September 2013, and the September 2013 RUS Form 7.

Staff will be available to discuss the information in detail during the November 21st Board meeting.

Orcas Power and Light Cooperative
Cash Recap
October 31, 2013

| | Rate | Term | Due Date | Amount | Total Balance |
|---|---------|------|----------|---------|------------------|
| GENERAL FUNDS: | | | | | |
| Cash on Hand | | | | 600 | |
| Cash in Checking - Key Bank | | | | 143,712 | |
| Cash in Checking/MMDA/Construction - Islanders Bank | | | | 749,927 | |
| Cash in Checking/Savings/Payroll - Wells Fargo | | | | 439,280 | |
| SUBTOTAL GENERAL FUNDS | | | | | 1,333,520 |
| CASH RESERVE FUND: | | | | | |
| CFC Commercial Paper | 0.14% | 50 | 11/8/13 | 200,000 | |
| CFC Commercial Paper | 0.14% | 49 | 11/15/13 | 134,103 | |
| SUBTOTAL CASH RESERVE FUND | | | | | 334,103 |
| RESTRICTED FUND: | | | | | |
| CFC Select Notes | 0.3800% | 160 | 11/12/13 | 352,060 | |
| CFC Select Notes | 0.3900% | 160 | 12/16/13 | 278,607 | |
| CFC Select Notes | 0.3700% | 160 | 2/4/14 | 350,000 | |
| CFC Select Notes | 0.3700% | 160 | 2/5/14 | 200,000 | |
| CFC Select Notes | 0.4600% | 160 | 3/24/14 | 351,382 | |
| CoBank - AIM | | | | 151,620 | |
| Home Street Bank | 0.3490% | 547 | 4/29/15 | 104,895 | |
| Washington Federal Savings | 0.4000% | 365 | 11/29/13 | 107,675 | |
| Washington Federal Savings | 0.4000% | 365 | 5/19/14 | 108,756 | |
| SUBTOTAL RESTRICTED FUNDS | | | | | 2,004,996 |
| GRAND TOTAL FUND ENDING BALANCE 10/31/13 | | | | | <u>3,672,618</u> |

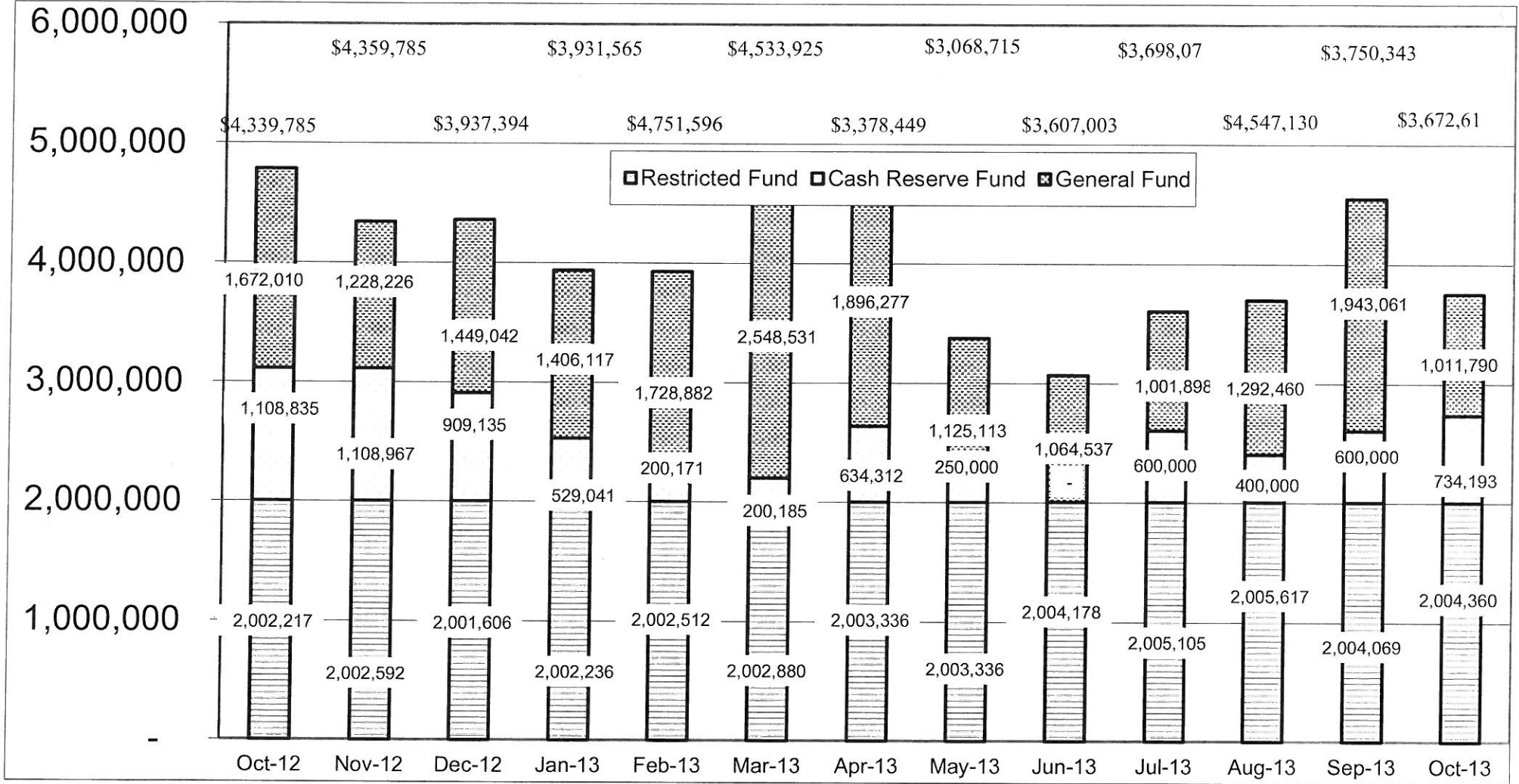
| | | | | | |
|------------------------------|--------|--|--|------------------|--|
| Project PAL: Islanders Bank | | | | <u>31,553</u> | |
| MORE Program: Islanders Bank | | | | <u>133,419</u> | |
| RUS Cushion of Credit * | 5.000% | | | <u>1,314,358</u> | |

CASH PROJECTION:
November 30, 2013

| | | | | | |
|--|--|--|--|-----------|------------------|
| GENERAL FUNDS: | | | | | |
| Beginning Cash 10/31/13 | | | | 1,333,520 | |
| Estimated Revenue (based on 95% of billing) | | | | 1,555,107 | |
| Estimated Other Revenue | | | | 20,000 | |
| Transfer From RUS Cushion of Credit | | | | 19,129 | |
| Subtotal Cash/Revenue | | | | | 2,927,756 |
| Estimated Accounts Payable | | | | (500,000) | |
| Estimated Payroll and Benefits | | | | (544,000) | |
| Estimated RUS Principal and Interest Payment | | | | (19,129) | |
| Transfer To Reserve Fund | | | | 0 | |
| Transfer To RUS Cushion of Credit | | | | 0 | |
| Power and Transmission Bill (October bill) | | | | (683,267) | |
| Subtotal Expenses | | | | | (1,746,396) |
| Projected Ending Balance 11/30/13 | | | | | 1,181,360 |
| CASH RESERVE FUND: | | | | | |
| Beginning Cash 10/31/13 | | | | 334,103 | |
| Transfer To General Fund | | | | 0 | |
| Transfer From General Fund | | | | 0 | |
| Projected Ending Balance 11/30/13 | | | | | 334,103 |
| RESTRICTED FUND: | | | | | |
| Beginning Cash 10/31/13 | | | | 2,004,996 | |
| Transfer To General Fund | | | | 0 | |
| Projected Ending Balance 11/30/13 | | | | | 2,004,996 |
| PROJECTED GRAND TOTAL FUND ENDING BALANCE 11/30/13 | | | | | <u>3,520,458</u> |
| PROJECTED CHANGE IN TOTAL FUND BALANCE ENDING 11/30/13 | | | | | <u>(152,160)</u> |
| RUS CUSHION OF CREDIT*: | | | | | |
| Beginning Balance 10/31/13 | | | | 1,314,358 | |
| Transfer from General Fund | | | | 0 | |
| Transfer To General Fund | | | | (19,129) | |
| Projected Ending Balance 11/30/13 | | | | | <u>1,295,229</u> |

* represents advance payments unapplied for RUS long term debt

TOTAL FUND BALANCE



Notes:

1. Add'l liquidity: CFC \$10M LOC, \$5M PV line, and CoBank \$5M LOC
2. RUS Cushion of Credit reclassified as prepmnt in 4/2009
3. 2013 - RUS loan draw \$1.5M @ 2.945% (June 2013)
4. 2013 - RUS loan draw \$1M @ 3.288% (August 2013)

ORCAS POWER & LIGHT COOPERATIVE

| UNSCHEDULED OUTAGE REPORT | | | | | OCTOBER 2013 | |
|--------------------------------------|--------------------------------------|----------|----------|----------|--------------|------------|
| OUTAGE CODE | CAUSE OF OUTAGE | DISTRICT | | | 2013 TOTALS | |
| | | ORCAS | SJ | LOPEZ | PTD | YTD |
| 001 | Power Supplier-Bonneville | 0 | 0 | 0 | 0 | 0 |
| 002 | Power Supplier-Puget Power | 0 | 0 | 0 | 0 | 0 |
| 100 | OPALCO Construction | 0 | 0 | 0 | 0 | 0 |
| 200 | Severe Storm | 0 | 0 | 0 | 0 | 0 |
| 300-303 | Faulty Equipment/Installation | 0 | 0 | 0 | 0 | 8 |
| 350 | Sectionalizing | 0 | 0 | 0 | 0 | 0 |
| 351 | Fuses/Fusing | 0 | 0 | 0 | 0 | 2 |
| 352/353 | Electrical/CAL/Transformer Overload | 0 | 0 | 0 | 0 | 3 |
| 400 | Underground Cable Failure | 1 | 4 | 2 | 7 | 50 |
| 401 | Contamination/Leakage (Equip. Fail.) | 0 | 0 | 0 | 0 | 0 |
| 402/403 | Aging Material/Equipment | 0 | 0 | 0 | 0 | 2 |
| 450 | Trees/Right of Way | 1 | 0 | 0 | 1 | 6 |
| 500/509 | Weather (Other than Severe Storm) | 1 | 0 | 2 | 3 | 15 |
| 600 | Small Animals/Rodents | 0 | 0 | 0 | 0 | 2 |
| 601 | Birds | 0 | 0 | 0 | 0 | 1 |
| 602 | Birds-Endangered (Swans; Eagles) | 0 | 0 | 0 | 0 | 1 |
| 603 | Large Animals | 0 | 0 | 0 | 0 | 0 |
| 700/701 | Cable Dig-In | 0 | 0 | 0 | 0 | 4 |
| 702 | Traffic Accident | 0 | 0 | 0 | 0 | 4 |
| 703 | Fire | 0 | 0 | 0 | 0 | 6 |
| 704 | Substation Vandalism | 0 | 0 | 0 | 0 | 1 |
| 705 | Construction | 0 | 1 | 0 | 1 | 2 |
| 709 | Public Caused Outage | 0 | 0 | 0 | 0 | 2 |
| 800 | Member Secondary Outage | 0 | 0 | 0 | 0 | 6 |
| 900 | Cause Unknown | 0 | 0 | 0 | 0 | 4 |
| PTD/YTD OUTAGES: OCTOBER 2013 | | 3 | 5 | 4 | 12 | 119 |
| PTD/YTD OUTAGES: OCTOBER 2012 | | | | | 20 | 136 |

Date: November 12, 2013

To: Randy Cornelius, General Manager

From: Russell Guerry, Manager of Engineering & Operations

Subject: Operations Safety Program – October 2013

Jeff Meyers conducted First Aid and CPR training.

Federated Insurance site inspections were reviewed with all Operations personnel.

Accidents/Incidents/Near Miss

Date: NA

Type: NA

Description: NA

Action Taken: NA

| | October 2013 | YTD (2013) |
|--------------------|---------------------|-------------------|
| Near Misses | 0 | 1 |
| Incidents | 0 | 1 |
| Accidents | 0 | 8 |
| Loss Time | 0 | 0 |

Total Hours Worked without Loss Time Accident: 10,056

General Manager's Report November 2013

I attended the November 5 NRU (Northwest Requirements Utilities) meeting in Portland. We discussed the Department of Energy (DOE) being involved with BPA due to a history of unfair hiring practices involving veterans and disciplinary action toward whistle blowers. These are two areas in which BPA is responsible so it is understandable why DOE is involved.

Another topic of concern is the segmentation of the BPA transmission system. Attached to this report is information received at the NRU meeting. There will be a public hearing in January. Please read the information and familiarize yourself with it. OPALCO's transmission services could increase **619%** in one year—an additional \$2.5 million more annually for transmission services if we end up with a direct assignment.

Finance

REDLG Application for Lopez Fire

Staff is currently awaiting the attorney letter of legal opinion from Anderson Hunter, which should arrive later this week. Once it is received, all requested information will be submitted to the USDA team who will further process the transaction, for which funds will be provided soon thereafter.

2014 Budget

At the November board meeting, staff will present the recommended 2014 budget, including a 2014 capital projects recommendation.

2013 Third Quarter Financial Report

At the November board meeting, staff will present the 2013 third quarter financial report which will include the balance sheet, statement of operations (along with notable drivers), statement of cash flow (abbreviated version), Island Network Financial Tracking Tool, and capital projects budget.

Capital Credit General Retirement

At the November board meeting, staff will be requesting board permission for the general retirement of capital credits allocated in 1988.

Member Services

Ebill Upgrade

The upcoming December launch of SmartHub has been communicated to all members via bill inserts, website updates, newspaper, and email alerts. The application can be downloaded now from the Apple App Store and Android Market. Full payment and alert functionality will be available 12/12. Staff expects to test and resolve a few meter data collection bugs during the rollout.

Member Services Supervisor position

External applications are being collected for the open Member Services Supervisor position, which will remain open until filled. The goal is to begin interviewing in December with a start date in January. Amy Saxe continues her transition into the combined Energy Services role, as Anne Bertino prepares to leave on 11/15.

Annual Bad Debt Summary

Member Services wrote off a total of \$27,426 in electric account balances between 11/2012 and 11/2013 and collected \$8,815 in payments for a net change of \$18,611 in uncollectable accounts (.1% of sales). A memo requesting application of an additional \$6,487 in capital credits is included in the board packet.

Technical Services/Island Network

CenturyLink lost their fiber optic submarine cable between San Juan and Lopez Island in the early morning hours of Tuesday, November 5, 2013. Over the last week, Technical Services' staff has been working hard to assist CenturyLink with fiber cross connections to the OPALCO fiber optic system in order to carry CenturyLink's voice and data traffic. Fortunately, OPALCO management had the foresight to install fiber cable in close proximity to CenturyLink's fiber submarine terminations, so the fiber connections on both ends were completed by end of day. Once the fiber cross connects were complete and tested, E911 was brought up throughout the County, followed by phone service (both land and cell) to the majority of the islands.

Coincidentally the Technical Services team was in the process of installing a 2nd Gigabit radio link between San Juan and Lopez prior to the CenturyLink cable failure. This radio was installed, configured, and tested by end of day on Friday, November 8, 2013. The new Gig radio provided additional bandwidth to CenturyLink, so they could enable DSL service to all the islands.

Throughout the CenturyLink outage, OPALCO fiber and Island Network remained in perfect operation. Internet access, e-mail, and inter-office phone communication worked at every OPALCO office.

Island Network subscribers had Internet access, including all the medical facilities, fire districts, libraries, and school districts in San Juan County. The libraries and OPALCO offices offered public wireless Internet. Technical Services continues to work with CenturyLink to increase their stability. The Technical Services Department did an outstanding job of developing a plan, were resourceful and thoughtful, and developed creative ways to communicate. Anderson expressed how proud she is of her team and their dedication to OPALCO members and the community in which we live!

Engineering & Operations

As of 11/12/2013, there are 256 work orders open totaling \$3,022,874. Of those, Operations has completed construction on 70, totaling \$773,706.

An update on capital projects and old underground cables will be provided at the Board meeting.

Energy Services

EEI Rate Period Report for FY 2012-2013 (detailed report attached):

Energy Services took advantage of bi-lateral transfers from two other utilities unable to spend their FY 2012-2013 EEI dollars and from the BPA unassigned, capital account to increase the OPALCO EEI budget for the rate period by \$221,523.

During FY 2012-2013 OPALCO residential and commercial members received \$646,825 in rebates for installing energy efficient measures.

The OPALCO Lopez Ferry Road Re-conductoring project received a reimbursement of \$19,140.

The Energy Services Department received an additional \$19,363 reimbursement for administrative costs.

Highlights from the past two years include:

- The Friday Harbor Elementary School VSD (variable speed drive) pump upgrade
 - Total project savings = 118,675 kWh
 - Total project cost = \$22,491
 - Total present value of savings = \$107,029
 - Simple payback = 2.65 yrs.
 - Reimbursement to the school = \$15,744
 - Commercial Lighting projects
 - Total completed projects = 75
 - Total combined savings = 754,270 kWh
 - Total combined reimbursements = \$160,173
 - Residential Weatherization projects (Insulation, Windows, and Air Sealing)
 - Total completed projects = 191
 - Total combined savings = 585,565 kWh
 - Total combined reimbursements = \$169,454
- FY 2012 -2013 Total reimbursements = \$685,328
Total reported savings = 2,714,894 kWh

The FY 2014 -2015 rate period began October 1, 2013. The OPALCO BPA EEI budget for FY 2014 – 2015 is \$481,580.

NORTHWEST REQUIREMENTS UTILITIES

To: NRU Board of Directors
From: Betsy Bridge, Blake Weathers
Re: Segmentation of the BPA Transmission System
Date: October 30, 2013

Perhaps the most important issue facing the NRU membership beginning in 2014 is Bonneville's segmentation policy and the proposed alternatives to how Bonneville currently segments its transmission system. This memo first describes what segmentation is and how Bonneville currently segments its system. Second, it explains how Snohomish County PUD, Powerex, and other large PTP customers are proposing to change Bonneville's segmentation policy and the potential impact to transmission rates. Third, it discusses the foundation for Bonneville's current segmentation policy and why Snohomish's proposal is contrary to Bonneville's primary mission and its statutory obligations. Finally, it discusses the upcoming process on segmentation and the importance of your involvement.

However, before delving into the details, it is important to consider the risks we face. NRU members could potentially see rate increases of 50% or more, and in the extreme over 600% if Bonneville adopted Snohomish's segmentation proposal. While we believe we have very sound statutory and policy arguments, we face numerous risks. Some of these include:

- We do not know who the decision maker, i.e. the Administrator, will be.
- BPA General Counsel is now reporting to the DOE General Counsel on "matters of significant legal risk." We are uncertain as to how broad this will be.
- Powerex and Iberdrola have protested Bonneville's segmentation policy at the Federal Energy Regulatory Commission (FERC), and we do not know how FERC will rule.
- The BP-14 Final Record of Decision (ROD) upheld Bonneville's current segmentation policy but stated that, "[t]his decision does not preclude the use of an alternative segmentation in the future." In other words, Bonneville has not committed to upholding its current segmentation policy in the future.

(1) What is Segmentation?

Bonneville divides its transmission facilities into categories of service called segments. These segments are made up of groups of facilities that serve a particular purpose. For example facilities used to integrate Federal power onto Bonneville's transmission system are assigned to the Generation Integration segment. Facilities used to transmit power out of the Pacific Northwest are assigned to the Southern Intertie segment. And to take it another step further, only those who use the Southern Intertie pay for those facilities in the Southern Intertie segment. Currently, Bonneville divides its system into 7 segments –Generation Integration, the Integrated Network, Southern Intertie, the Eastern or Montana Intertie, the Utility Delivery, DSI Delivery and Ancillary Services.

The segment at issue is the Integrated Network segment, which is the core of Bonneville's transmission system. The facilities in this segment transmit power to the Delivery and Intertie

segments, directly to wholesale customers, and to adjacent Balancing Authority Areas. The facilities in the Network segment do not serve distinct functions, like for example, the Southern Intertie does. Instead, it provides services and benefits to nearly all of Bonneville's transmission customers. Some of these benefits include bulk power transfers, voltage regulation, and overall reliability. Bonneville plans and operates these facilities on an integrated basis. The facilities that are included in the Network are 34.5 kV and above. The costs of the Network Segment are allocated to both Network Service (NT) and Point-to-Point (PTP) customers.

(2) Snohomish's Proposal

In this past rate case, BP-14, Snohomish and the large PTP customers challenged Bonneville's use of a 34.5 kV bright light threshold to determine which facilities should be included in the Network Segment. In a somewhat confusing manner, they proposed to redefine the Network Segment using a 116 kV bright light threshold along with using the Federal Energy Regulatory Commission's (FERC's) Seven Factor Test and the definition of the Bulk Electric System to determine which facilities would be part of the Network segment or not. Snohomish conducted its own analysis¹, which they allege demonstrates that there are over \$700 million dollars of facilities included in the Network segment that should not be.

Obviously, the question arises, if this \$700 million is no longer allocated to the Network segment, who pays for these facilities? Snohomish suggested two potential methods. One would be to socialize the costs over a smaller group. The large PTP customers have suggested allocating these costs to the NT customers as a class or creating a new segment that would be akin to the Utility Delivery, but instead of including only facilities under 34.5 kV, it would include all of the facilities below 116 kV. Based on Snohomish's analysis, this would have the effect of increasing the NT rate by about 65%.

Alternatively, Snohomish has proposed that these costs be directly assigned to the utilities that use them. This means individual utilities would see varying effects depending on the location of their systems within the BPA footprint, but overall, most of Bonneville's smaller customers would likely see substantial transmission rate increases. NRU staff calculated the rate impact for four of our members based on Snohomish's analysis. We chose four geographically diverse utilities, with some located in the I-5 corridor and other utilities located on the fringe of the BPA system. Three of the four utilities would see rate increases around 89% to 100%. One of our utilities would see a 619% transmission rate increase.

On the other hand, the larger PTP customers could see a rate decrease of around 14%.

¹ The numbers discussed in this memo are based on Snohomish's analysis, which we do not believe is analytically sound. The technical analysis that would need to be done to know accurate numbers would be a major undertaking by Bonneville staff, and we are not clear on what that analysis would even be. These numbers are simply based on Snohomish's "flawed" analysis on what it would like to see happen with Bonneville's segmentation policy.

In other words, the Snohomish proposal would effectively require Bonneville's smaller and usually rural customers that take power at lower voltages and over longer transmission lines to pay significantly more than its larger and more urban customers, which would upend over 75 years of Bonneville's transmission policy and practice. It would also fail to meet Bonneville's statutory obligation to encourage the widest possible diversified use of power.

(3) The Foundation for Bonneville's Current Segmentation Policy

A crucial part of this issue is Bonneville's history and its primary purpose. In the early part of the 20th Century investor owned utilities (IOUs) controlled both the production of power as well as the network to transmit it. This effectively limited the availability of electricity to larger towns and cities because providing electrical service to the sparsely populated rural areas in the Northwest was not generally deemed profitable by the IOUs. With clear purpose, Congress intervened to bring electricity to these rural communities. Most importantly for the Northwest, Congress passed the Bonneville Project Act, thereby establishing Bonneville. The Act directs Bonneville to give preference to public power and *to encourage the widest possible diversified use of electric energy*.

Moreover, the Act specifically provides for a uniform rate, otherwise known as a postage stamp rate. **Under a postage stamp rate, customers pay the same rate regardless of how far they are located from the generation.** This ensured that Bonneville's customers, even in the most remote and sparsely populated parts of the Northwest could have access to affordable power.

Congress has continued to see Bonneville's mission as encouraging the widest possible diversified use of electric energy by including it in every subsequent Bonneville enabling statute. The Flood Control Act, the Transmission Systems Act, and the Northwest Power Act all repeat this obligation. The Transmission Systems Act also repeats the call for uniform rates.

What Snohomish and many of the other PTP customers have proposed regarding Bonneville's segmentation policy flies in the face of Bonneville's primary mission, history and statutory obligations. Their proposal would effectively require Bonneville's smaller and less densely populated customers to pay more for transmission service than Bonneville's larger and more urban customers.

Another important point is that Bonneville and its customers have built and planned the system based on Bonneville's longstanding policies. If these policies were reversed, it would unfairly penalize Bonneville's customers who have built their electrical systems based on the reliance of a stable and long held segmentation policy.

(4) BP-14 Final Record of Decision and Upcoming Workshops

These historical and statutory arguments were the key underpinnings for the arguments that NRU, PNGC, WPAG, and Bonneville staff made in support of Bonneville's current segmentation policy in the BP-14 rate case. And indeed, Bonneville's Final ROD upheld the current segmentation policy. The language in the ROD was very strong finding that the 34.5 kV bright line complies with Bonneville's statutory obligations and cost causation principles and is

consistent with Bonneville's other policies. However, despite this strong language, the Administrator concluded that Bonneville will engage the region in a discussion about segmentation after the conclusion of the BP-14 case. In other words, this battle on segmentation is long from over.

Bonneville has been meeting with individual customers and customer groups to discuss with them how this discussion should occur and what it should include. NRU, working closely with PNGC and WPAG, believes we need a list of principles that will govern this discussion. Some of these principles include:

1. The supposed "need" to modify Bonneville's current segmentation policy is neither predetermined nor agreed to. Retention of the status quo is an acceptable outcome.
2. Proponents of alternative segmentation proposals must be able to demonstrate that their proposals would establish transmission rates that encourage the widest possible diversified use of electric energy at the lowest possible rates to consumers consistent with sound business principles (the "Widest Use Standard") pursuant to Bonneville's enabling statutes.
3. The rate impact of alternative segmentation proposals is one of the most significant factors in the determination as to whether any proposals meet the Widest Use Standard.
4. Technical analysis (including rate impact analysis at the utility level) of alternative segmentation proposals must be followed by regional meetings held by BPA throughout the Pacific Northwest where the proponents of a change would detail the proposed change, the rate impacts to individual BPA customers, and how BPA's statutory obligations are met by the proposed change. The regional meetings would allow general managers, policy makers, consumers and other stakeholders in the communities who would be most impacted an opportunity to comment verbally on the segmentation proposals and their respective rate impacts.

The first workshop on segmentation has not yet been scheduled but we anticipate it will occur sometime in early January. This meeting will set the tone for how we proceed with this discussion and will determine what principles will govern these proceedings. Due to NRU's insistence, Elliot Mainzer, Acting Administrator is planning to be at this first workshop, and it would be very helpful if many of the NRU General Managers could attend this first meeting, either in person or by phone. It will be very important to stress that the Widest Use Standard is a crucial piece of Bonneville's mission and we are hopeful that many of you will be able to be there to deliver this message. We will send you the meeting information, including date, time, and call-in information as soon as we have it. Key policy issues for members to address in the interim are highlighted in a separate presentation to be used during the November 6th Board meeting.

Segmentation of BPA's Transmission System: Analysis and Examples

NRU Board of Directors Meeting

November 6, 2013

By Blake Weathers

Segmentation Analysis: Methodology

- Applies Snohomish PUD's rate case testimony and analysis to the BPA facilities serving NT customers:
 - All 'Non-Network' facilities at 115kV and below (plus a few 230kV facilities) and the associated costs are removed from the current Network rate, and then those costs are applied to NT customers only.
 - Includes costs for initial investment and operations and maintenance.
 - Further assumptions were made to facilities serving multiple NT customers
- Costs are broken out in two ways:
 - Socialized (Cost increase realized in the NT Base Charge and applied equally to each NT customer based on load)
 - Direct Assignment (Costs directly assigned to the customer directly served by specific facility)

Segmentation Analysis: Socialized Impacts

- Include the re-segmented facilities into the NT base charge and apply to all NT customers.
- If the socialized approach was applied to FY2014-2015 rates, then the NT base charge would increase from \$1.741 KW/Mo to \$2.868 KW/Mo, or a 65% increase.
- The PTP customer class would realize a reduction in their base charge from \$1.479 KW/Mo to \$1.274 KW/Mo, or a 14% decrease.

Segmentation Analysis:

Direct Assignment Impacts

- The direct assignment analysis was applied to four NRU members (preliminary calculations by NRU staff).
- Three of four members would receive an 89-99% increase in base transmission charges.
- The fourth member would see a 619% increase.

| NRU Member | Directly Assigned Facilities | Annual Direct Assignment | Net Increase to NT Base Charge |
|--------------------------------------|---|--------------------------|--------------------------------|
| Harney Electric Cooperative | <ul style="list-style-type: none"> • Brasada-Harney No.1 Transmission Line • Harney Substation | \$515,377 | 96% |
| City of Centralia | <ul style="list-style-type: none"> • Chehalis-Centralia No. 1 and 2 Transmission Line • Centralia Substation • Chehalis Substation | \$403,939 | 89% |
| Surprise Valley Electric Cooperative | <ul style="list-style-type: none"> • Canby Tap to Malin-Hilltop • Canby Substation • Davis Creek Tap-Mile High Alturas | \$881,467 | 99% |
| Orcas Power and Light Cooperative | <ul style="list-style-type: none"> • Transmission Line to Lopez Island • Lopez Island Substation | \$2,465,510 | 619% |

Segmentation Analysis:

Other High Level Takeaways

- The rate impacts are not limited to NT customers on the fringe of the system. I-5 corridor members of NRU are experiencing the similar increases as members served via radial facilities on the fringe of the system.
- Segmentation will create a rift amongst the NT Customer Class. For example, large NT customers, such as EWEB and Clark PUD, served by facilities above 115kV will likely see a rate *decrease* under Direct Assignment.
- Direct assignment implementation will be a very time consuming and difficult exercise for both BPA and customers (i.e., many variables, assumptions, and moving parts).

NRU Policy Issues Regarding Transmission Segmentation Proposals

NRU Board of Directors Meeting

November 6, 2013

By

John Saven

Background

- Discussions with Snohomish PUD to retract PTP requests for segmentation studies were unsuccessful
- BPA committed to proceed with regional workshops, but overall approach taken is critical
- NRU/PNGC will press for compelling rationale from PTP customers to change BPA's segmentation policy rather than starting with technical analysis
- What degree of advanced support can we expect from the BPA Administrator?
- Will BPA or DOE be the decision maker?

Key Issues for NRU Board

- Do Members agree that we will continue to vigorously oppose PTP segmentation proposals in all forums?
- Will you support the hiring of consultants if needed later in 2014 or 2015 beyond our budgeted resources?
- Do members agree that if facilities are removed from the Network segment based on their individual use, there is no compelling rationale to assign costs to NT as a class or by voltage level as a class?
- Are members ready to directly engage in BPA workshops beginning likely in January?

ORCAS POWER & LIGHT COOPERATIVE

BPA ENERGY EFFICIENCY INCENTIVE FUND (EEI)

FY 2012 -2013

| Rebate Type | Amount Distributed | Number of Measures | Reported Kwh Savings |
|--|--------------------|--------------------|----------------------|
| Ductless Heat Pumps | \$88,500 | 60 | 234,240 |
| Storage Water Heaters | \$1,303 | 42 | 5,433 |
| Heat Pump Water Heaters | \$7,600 | 21 | 24,955 |
| Efficient Clothes Washer | \$11,970 | 176 | 41,607 |
| Efficient Showerheads - Direct Install | \$1,720 | 86 | 23,672 |
| Energy Star -Direct Install Bulb | \$15,929 | 3501 | 100,729 |
| Energy Star Light Fixtures | \$2,120 | 212 | 20,893 |
| Energy Star Refrigerator/Freezer | \$3,670 | 154 | 14,866 |
| Efficient Insulation | \$86,110 | 100 | 287,359 |
| Efficient Windows | \$73,964 | 69 | 266,575 |
| Energy Star Homes | \$32,350 | 22 | 72,058 |
| Low Income Weatherization | \$10,975 | 1 | 10,530 |
| Thermostat Controls | \$230 | 2 | 938 |
| PTCS Air Sealing | \$9,380 | 22 | 31,631 |
| PTCS Duct Sealing | \$11,200 | 25 | 26,619 |
| PTCS Heat Pump | \$25,400 | 30 | 89,027 |
| Commercial Lighting | \$160,173 | 75 | 754,270 |
| Commercial Projects (other) | \$2,780 | 5 | 22,571 |
| Commercial Ductless Heat Pumps | \$750 | 1 | 2,989 |
| Energy Smart Grocer | \$52,500 | 27 | 362,782 |
| OPALCO Infrastructure | \$19,140 | 1 | 76,561 |
| Custom Projects | \$48,203 | 4 | 244,590 |
| Performance Payment Net | \$19,363 | | |
| TOTALS | \$685,328 | 4,636 | 2,714,894 |

NEW SERVICES

October 2013

| | Orcas | San Juan | Lopez | Center/ Decatur | Blakely/Obstruction /Crane/Shaw | Total |
|----------------|-------|-------------|-------|--------------------|------------------------------------|-------|
| Residential | 4 | 1 | | 2 | | 7 |
| Commercial | | 1 | | | | 1 |
| Line Retention | | | | | | 0 |
| Other - OPALCO | | 2 | | | | 2 |
| Total* | 4 | 4 | 0 | 2 | 0 | 10 |
| 2013 YTD | 31 | 47 | 20 | 5 | 4 | 107 |
| 2012 YTD | 24 | 44 | 26 | 3 | 2 | 99 |
| 2011 YTD | 33 | 65 | 12 | 2 | 8 | 120 |
| 2010 YTD | 52 | 77 | 18 | 1 | 3 | 151 |
| 2009 YTD | 60 | 86 | 16 | 4 | 3 | 169 |

*Figures have been queried from the Service Order billing module and reconciled to the RUS Form 7 New Service numbers.

OPALCO
Historical MORE Revenue
(All Green kWh and MORE Blocks)
For Years 2011 - 2013 YTD

| Month | 2011 YTD | | | | | | | 2012 YTD | | | | | | | 2013 YTD | | | | | | |
|-------|-----------|---------|-----------|--------------------|--------|------------------|------------------|-----------|---------|-----------|--------------------|--------|------------------|------------------|-----------|---------|----------|--------------------|--------|------------------|------------------|
| | All Green | | | Green Power Blocks | | | Total Revenue | All Green | | | Green Power Blocks | | | Total Revenue | All Green | | | Green Power Blocks | | | Total Revenue |
| | # | kWh | Revenue | # | # | Block Revenue | | # | kWh | Revenue | # | # | Block Revenue | | # | kWh | Revenue | # | # | Block Revenue | |
| | Members | kWh | Revenue | Members | Blocks | Revenue | | Members | kWh | Revenue | Members | Blocks | Revenue | | Members | kWh | Revenue | Members | Blocks | Revenue | |
| | | \$ | 0.04 | | | \$ | 4 | | \$ | 0.04 | | | \$ | 4 | | \$ | 0.04 | | | \$ | 4 |
| Jan | 46 | 50,160 | 2,006 | 478 | 948 | 3,792 | 5,798 | 44 | 47,428 | 1,897 | 454 | 970 | 3,880 | 5,777 | 43 | 54,479 | 2,179 | 433 | 921 | 3,684 | 5,863 |
| Feb | 44 | 41,550 | 1,662 | 448 | 947 | 3,788 | 5,450 | 43 | 37,664 | 1,507 | 452 | 962 | 3,848 | 5,355 | 43 | 50,927 | 2,037 | 432 | 918 | 3,672 | 5,709 |
| Mar | 41 | 41,906 | 1,676 | 446 | 949 | 3,796 | 5,473 | 42 | 37,682 | 1,507 | 449 | 953 | 3,812 | 5,319 | 42 | 42,787 | 1,711 | 429 | 915 | 3,660 | 5,371 |
| Apr | 41 | 33,629 | 1,345 | 446 | 950 | 3,800 | 5,146 | 42 | 27,636 | 1,105 | 449 | 953 | 3,812 | 4,917 | 42 | 31,063 | 1,243 | 427 | 904 | 3,616 | 4,859 |
| May | 42 | 31,336 | 1,253 | 450 | 956 | 3,824 | 5,077 | 42 | 21,993 | 880 | 448 | 952 | 3,808 | 4,688 | 41 | 21,699 | 868 | 426 | 897 | 3,588 | 4,456 |
| Jun | 42 | 21,813 | 873 | 455 | 971 | 3,885 | 4,758 | 43 | 20,335 | 813 | 448 | 952 | 3,808 | 4,621 | 41 | 20,336 | 813 | 426 | 897 | 3,588 | 4,401 |
| Jul | 43 | 21,335 | 853 | 464 | 987 | 3,948 | 4,801 | 43 | 19,649 | 786 | 449 | 953 | 3,812 | 4,598 | 43 | 17,756 | 710 | 425 | 895 | 3,580 | 4,290 |
| Aug | 43 | 20,004 | 800 | 466 | 990 | 3,960 | 4,760 | 43 | 22,457 | 898 | 446 | 948 | 3,792 | 4,690 | 42 | 18,716 | 749 | 421 | 893 | 3,572 | 4,321 |
| Sep | 45 | 25,959 | 1,038 | 465 | 985 | 3,940 | 4,978 | 42 | 13,136 | 525 | 443 | 947 | 2,530 | 3,055 | 42 | 18,786 | 751 | 418 | 890 | 3,560 | 4,311 |
| Oct | 44 | 25,321 | 1,013 | 464 | 984 | 3,936 | 4,949 | 42 | 21,162 | 846 | 443 | 947 | 3,788 | 4,634 | 43 | 23,882 | 955 | 415 | 887 | 3,548 | 4,503 |
| Nov | 46 | 40,308 | 1,612 | 458 | 972 | 3,888 | 5,500 | 44 | 30,335 | 1,213 | 438 | 943 | 3,772 | 4,985 | - | - | - | - | - | - | - |
| Dec | 45 | 49,303 | 1,972 | 458 | 972 | 3,888 | 5,860 | 43 | 43,849 | 1,754 | 437 | 929 | 3,716 | 5,470 | - | - | - | - | - | - | - |
| Total | 44 | 402,624 | \$ 16,105 | 458 | 11,611 | \$ 46,446 | \$ 62,551 | 43 | 343,326 | \$ 13,733 | 446 | 11,409 | \$44,378 | \$ 58,111 | 42 | 300,431 | \$12,017 | 425 | 9,017 | \$36,068 | \$ 48,085 |

Notes: 2 members participate in both All Green and Green Blocks. Average blocks per member is 2.1.
Beginning June 2011, this report reflects combined data for the former Green Power program and MOR
Beginning September 2012, half of the members were transitioned to a mid-month billing cycle; these members were billed for 15 days of consumption, a prorated basic charge, and prorated MORE blocks on 9/14/12.

OPALCO Member Billing Revenue History

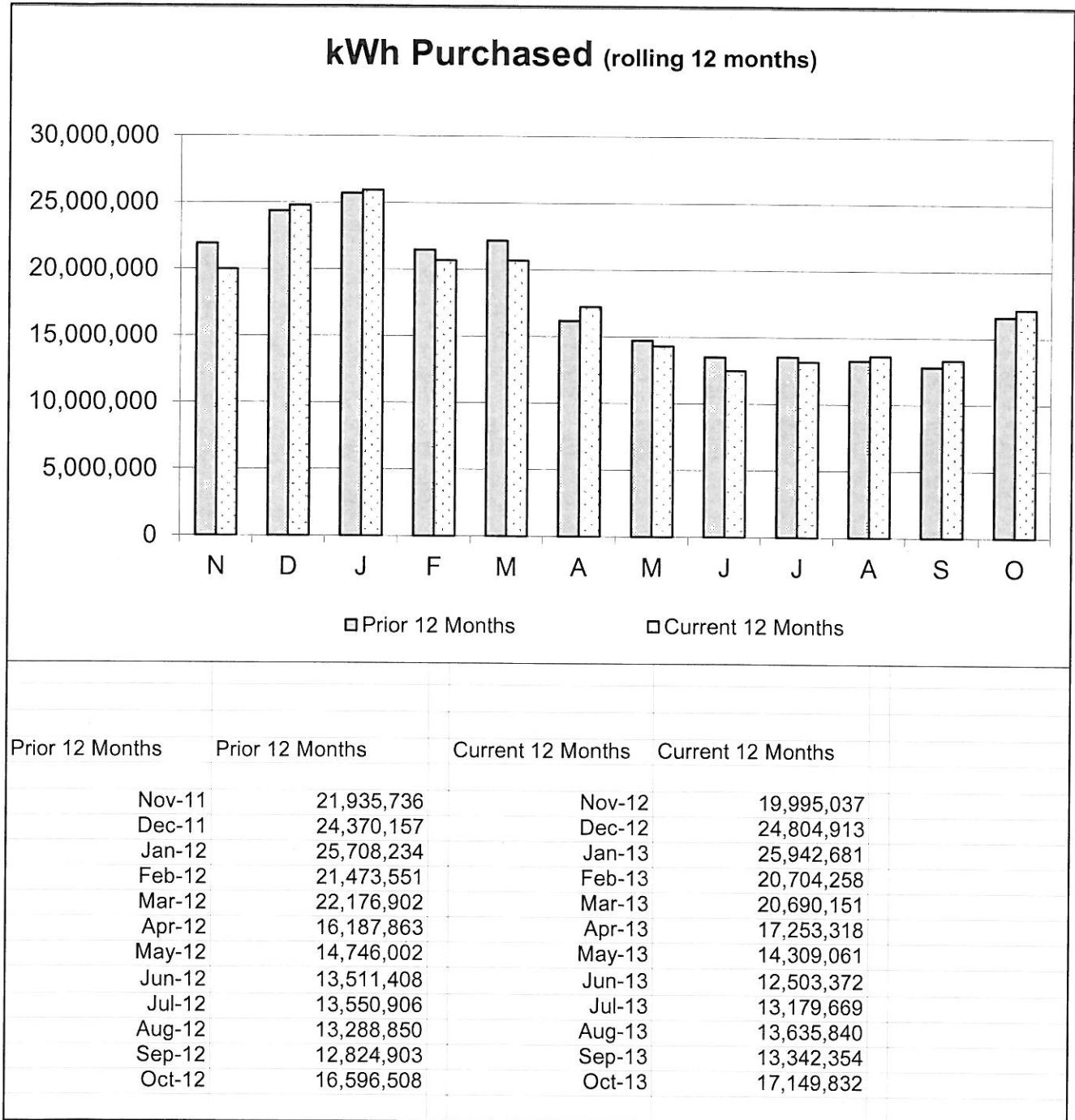
| Month | 2009 | 2010 | 2011 | 2012 | 2013 | Average |
|------------|---------------|---------------|---------------|---------------|---------------|---------------|
| January | \$ 2,542,345 | \$ 2,091,129 | \$ 2,266,724 | \$ 2,203,319 | \$ 2,354,732 | \$ 2,291,650 |
| February | 2,109,273 | 1,684,100 | 2,018,866 | 1,980,380 | 2,190,659 | 1,996,656 |
| March | 1,868,966 | 1,693,238 | 2,100,947 | 2,080,586 | 2,031,007 | 1,954,949 |
| April | 1,825,774 | 1,659,771 | 1,803,095 | 1,733,543 | 1,803,826 | 1,765,202 |
| May | 1,582,738 | 1,453,989 | 1,634,542 | 1,536,601 | 1,580,671 | 1,557,708 |
| June | 1,243,754 | 1,409,557 | 1,383,932 | 1,419,883 | 1,450,461 | 1,381,517 |
| July | 1,217,676 | 1,300,950 | 1,302,528 | 1,380,472 | 1,423,753 | 1,325,076 |
| August | 1,300,901 | 1,342,739 | 1,360,611 | 1,450,397 | 1,448,015 | 1,380,533 |
| September* | 1,297,670 | 1,297,936 | 1,421,174 | 1,005,902 | 1,458,553 | 1,368,833 |
| October | 1,335,166 | 1,389,529 | 1,483,658 | 1,499,863 | 1,636,955 | 1,469,034 |
| November | 1,590,102 | 1,584,909 | 1,977,782 | 1,779,353 | | 1,733,036 |
| December | 1,975,064 | 2,123,602 | 2,375,284 | 2,085,584 | | 2,139,884 |
| Total | \$ 19,889,429 | \$ 19,031,449 | \$ 21,129,143 | \$ 20,155,885 | \$ 17,378,633 | \$ 20,364,078 |

Notes:

* September 2012 excluded - half of the membership transitioned to a mid-month billing cycle. These members were billed for 15 days of consumption and a prorated basic charge on 9/14/12.

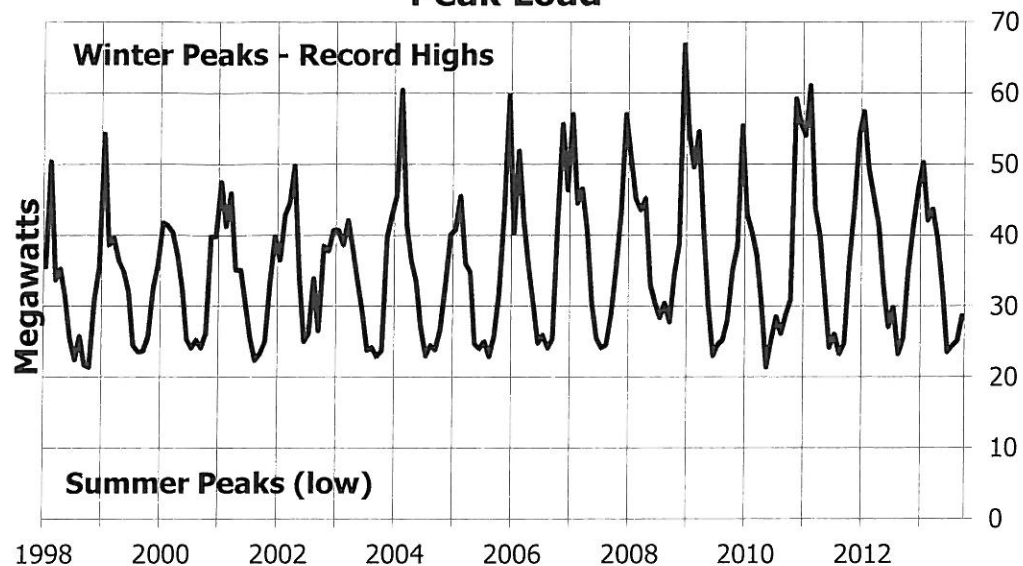
BPA Consumption Summary

Through
October 2013

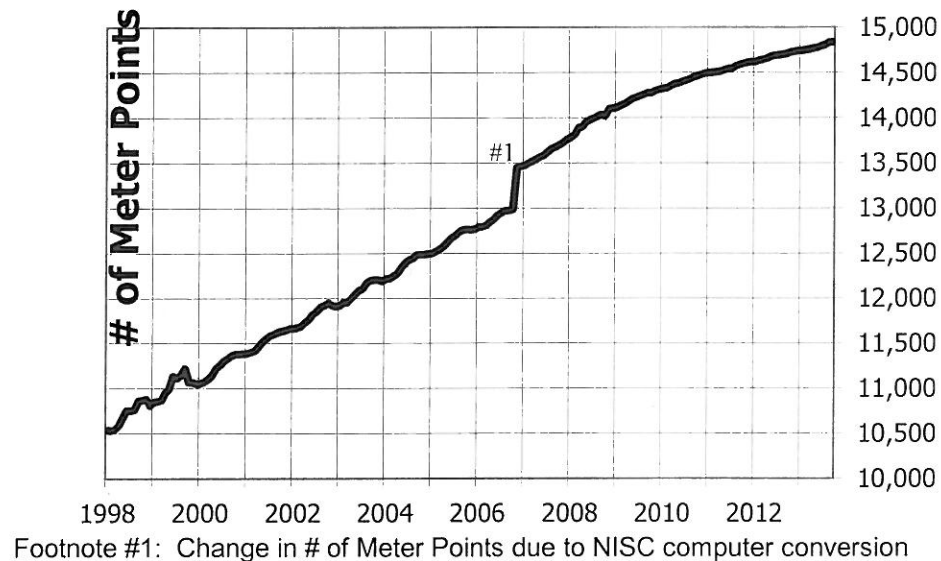


RUS Form 7 Data
Through September 2013

Peak Load

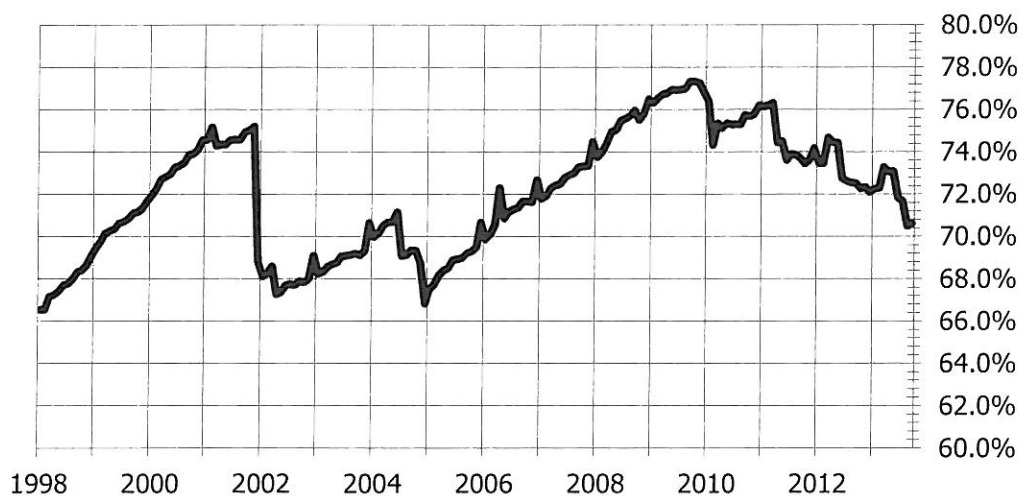


Total Meter Points

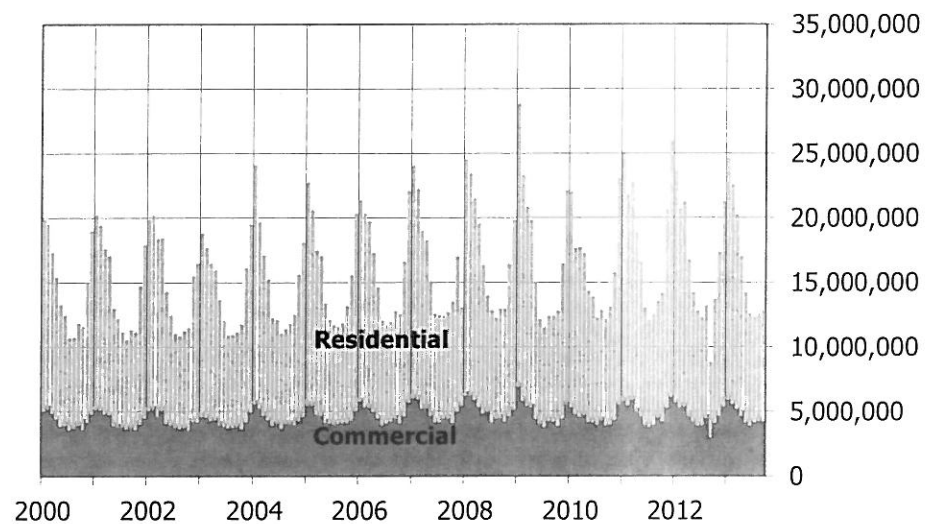


Equity as a % of Total Capitalization

Margins & Equity/Margin & Equity +
Total Long Term Debt



kWh Sold



Member Comments via email:

Marie Z. Johansen

I just want to add my personal kudos to OPALCO for coming through for the County during this latest communications debacle.

I am appreciative of everything that OPALCO did to restore service. This reinforces my desire to have internet service that is OPALCO provided!

Thank you all so much for your cooperative attitude and for bringing us all "back to the 21st century "again

Lori Stokes

Just want to express my appreciation for the wonderful help OPALCO provided in restoring phone and internet service to the islands. You are THE BEST!!!!

Jim Corenman

We are Opalco members, and customers of both Rockisland and Century for internet service (two DSL lines, hoping-- naively-- for redundancy). Our hope has always been that San Juan was a place where we could enjoy a rural lifestyle with the advantages of modern communication. I recognize that this is not without challenges, my background is engineering with a lifelong interest in communication.

We've been following Opalco's data efforts with interest since you started putting fibers in the power cables a decade or more ago. And we were keenly interested in your broadband plans announced last year (and put our money down), and were very disappointed in the "new direction". I wrote you at that time, via your website comment page, but never got a reply.

Your comment in today's email newsletter was particularly disturbing: "CenturyLink and OPALCO are close to an agreement to provide access to our infrastructure for improved broadband service to CenturyLink customers – and this situation may accelerate our progress".

How can any agreement with Century make sense for Opalco members?

Century doesn't need Opalco's help with their broadband efforts. They are a large corporation, and certainly have the resources to improve service if they chose to. But being a large corporation their first obligation is to maximize value to their shareholders- which means maximize income via regulated, rural tariffs, and minimize expenses. Telephone is regulated, which sets minimum standards, but internet is not. Lousy service on Orcas? Sorry, no plans for expansion.

How does that change with an agreement with Opalco?

My hope was that Opalco would build out the fiber backbone as planned and either provide last-mile service via wireless, or make fiber connections available to others who wanted to do that-- local providers, neighborhood coop groups, etc.

My fear is that Opalco is about to make an agreement with Century that will result in the same lousy DSL service, yet lock out other last-mile providers from access to Opalco's backbone. Obviously I am not privy to any of the details, but it is hard to see how any sort of agreement with Century is in the membership's best interest.

If I have this wrong then I hope you will help me out. Otherwise, I would urge Opalco to reconsider direction that it is taking.

Many thanks

Farhad Ghatan

Please do all you can to develop community broadband in SJCounty. Our future depends on strong leadership on this topic.

Best wishes

Melonie Walter

Dear OPALCO Board Members,

After our recent communications nightmare, I'm writing to let you know that I fully support our member-owned coop building us a phone and internet solution! Something islanders can trust and depend on. Come on OPALCO, you can do it!!

Thank you for stepping up to the plate and saving the day. Now, give us a CenturyLink alternative, please!