

**MINUTES OF THE BOARD OF DIRECTORS MEETING**  
**ORCAS POWER & LIGHT COOPERATIVE**

Friday, November 20, 2015

President Jim Lett called the meeting to order at 8:45 a.m. at the Friday Harbor OPALCO office. Board Members present were Winnie Adams, Randy Cornelius, Jim Lett, Mark Madsen, Bob Myhr and Jerry Whitfield. Vince Dauciunas attended via telephone. Staff present were General Manager Foster Hildreth; Manager of Engineering and Operations Russell Guerry; Manager of Finance and Administration Nancy Loomis, Head Accountant Travis Neal, Assistant Manager of Member Services Jon Blomgren and Executive Assistant Bev Madan (serving as recording secretary). Rock Island Communications staff present were Executive Vice President Gerry Lawlor and Accountant Chad Bailey. Also present was consultant Jay Kimball.

**Member/Guests**

Each member/guest was offered an opportunity to address the board.

Lopez: Dwight Lewis, Brian Silverstein

San Juan: Doug Rowan

One member spoke in favor of the recommended changes to Policy 29 *Energy Rates* and the Low Income Rate added to the rate design. Another member noted that members were not given an option for broadband and were not given full consideration of the debt level required to purchase Rock Island.

**October 15 Meeting Minutes**

- **Motion** made by Myhr to accept the October 20, 2015 minutes. Motion was seconded (Adams) and carried by voice vote.

**October 29 Special Meeting Minutes**

- **Motion** made by Madsen to accept the October 29, 2015 minutes. Motion was seconded (Myhr) and carried by voice vote.

**New Members**

- **Motion** made by Myhr to accept the new members listed below. Motion was seconded (Adams) and carried by voice vote.

**DISTRICT 1**

**Brown**

Smith, Lucian & Kelly

**San Juan**

Acs, Thomas

Belcovson, Joe & Jill

Black, Coral

Borland, Christopher & Linda

Broxon, Cass

Cull, Robert

Dutra, Pamela & Bill

Flynn, Catherine

Guerrero, Martin

Johnston-Lohrey, Alison

Kaplan, Al

Keith, Cathy

Malcolm Street Properties

Mar, David

O'day-Strom, Kelsey

Olson, Kim

Platman, Lauren

Smith, Kathleen

Vittinghoff, Eric

Waldron, Ben & Michelle

Webb, Nancy

Worcester, Stacy

**DISTRICT 2**

**Orcas**

Abrahamson, Cindy

Arnold, Thomas

Barron, Rachel

Beach, Carl

Becker, Barrie

Blackhurst, Anne & Walsh,

Joseph

Blackwell, Burt

Coulombe, Lisa & Frerichs,

Leland

Gehl, Barry & Joyce

Helm, Cheryl

Perthou, Morley

Tokarchuk, Jessica

Transue, Garry & Scharaga,

Deborah

Wild, Erin

Williams, Nicholas & Crosby,

Elizabeth

**DISTRICT 3**

**Lopez**

Christensen, Donald & Mary

Hancock, Audrey

Handshue, Daniel S

Highland Water Users

Association

Lopez Animal Protection Society

Miller, Mason

Stone, Anita

Westman, Steve

**DISTRICT 4**

**Crane**

Mahlum, Paul E.

**Shaw**

Larson, E. Chris

## Capital Credits

### General Retirement

In keeping with the 25-year rotation of retiring capital credits, staff requested Board approval to retire the capital credits for 1990 in the amount of \$1,111,134. Historically, only a portion of the checks are cashed so it is anticipated that \$700,000 will be expended through year-end. After discussion and because of the capital commitments to fund the Lopez to San Juan Island submarine cable, the Board agreed to distribute only fifty percent of margin associated with the year 1990, with the remainder paid out at a later date.

- **Motion** made by Cornelius to approve payment of 50% of the general retirement of capital credits for 1990. The motion was seconded (Whitfield) and carried by voice vote.

### Estates

- **Motion** made by Cornelius to approve payment of \$2,830.42 in capital credits to the estates of deceased members listed below. Motion was seconded (Myhr) and carried by voice vote.

Sidonia Barker.....	\$1,568.21
Janet Maas.....	\$598.97
Twila Stephens.....	\$293.07
Roy C. Toole .....	\$230.30
Carole L. Vowell .....	\$139.87

### NRUCFC Loan Refinance / Resolution 11-2015

An estimated \$800,000 in interest can be saved if OPALCO refinances its current RUS Hardship loan that carries an interest rate of 5%. With 27 years remaining on the loan, OPALCO could refinance with NRUCFC at an interest rate of approximately 4.2% (rate will be determined once the loan documents are filed).

- **Motion** made by Myhr and seconded (Cornelius) to approve Resolution 11-2015 *Authorizing NRU CFC Borrowing* which allows OPALCO to refinance and execute the documents relating to the refinance of OPALCO RUS Hardship loan with NRUCFC. Motion carried by voice vote.

### 2016 OPALCO Budget

*NOTE: The Board of Directors held an all-day work session Thursday, November 19 and an extensive portion of the November 20<sup>th</sup> Board meeting to review and discuss both the OPALCO and the Rock Island Communications 2016 budgets.*

As discussed during the November 19<sup>th</sup> Board work session and November 20<sup>th</sup> Board meeting, the Board approved the 2016 OPALCO Budget as recommended by staff, with the following changes and discussion:

- The "Energy Assistance Program" rate was thoroughly discussed by the Board. As discussed during the Needs Assessment meetings, awards would be determined by eligibility in other low-income programs, such as LIHEAP (Low Income Home Energy Assistance Program). OPALCO will prescreen the applications and work with the PAL Committee to determine their desired involvement. The Board agreed to cut the amount budgeted in half for the first year (from \$180,000 to \$90,000). Due to initial startup unknowns, the Board agreed to revisit the progress of the program periodically to gauge member participation and determine if additional funding should be considered.
- Solar and renewable generation: The 2016 Budget includes administrative and engineering staff time to site, engineer and explore funding options for a community funded pilot solar project. While the amount budgeted in 2016 did not change, the Board consensus was to take a leadership role in laying the groundwork necessary in 2016 necessary to construct a community solar project in 2017.

- Capital projects: the possibility of eliminating \$1M from the undergrounding cable portion of the proposed budget was discussed. After a review of the proposed undergrounding projects, the Board approved the capital projects budget as submitted.
- The Board discussed the merits of joining the power resource cooperative, named PNGC, as a full paying member starting October 1<sup>st</sup>, 2017. It was requested that staff provide the Board with a detailed analysis at the December Board meeting.

A slide presentation was reviewed with the Board which highlighted: 3<sup>rd</sup> quarter financial report, load forecasting, fuel switching, capital projects (including submarine cable project), and comparisons to other cooperatives within the region. Hildreth noted that discretionary funds have been pared down starting 2014 when revenue shortfalls started to occur and any further expense reductions will impact member service levels. The Board approved 2016 Budget is as follows:

2016 Budget:

REVENUES	
Operating	\$24,833,155
EXPENSES	
Operating	
Cost of Power	\$ 7,624,980
Transmission	\$ 53,560
Distribution – operations	\$ 3,420,263
Distribution – maintenance	\$ 1,702,147
Consumer accounts	\$ 930,975
General and Administration	
Administration G&A	\$ 3,058,886
Energy services G&A	\$ 410,376
Total General & Administration	\$ 3,469,263
Depreciation and amortization	\$ 3,673,019
Taxes	\$ 1,028,086
Total Operating Expenses	\$21,902,293
FIXED CHARGES	
Interest	\$ 1,360,588
Total Fixed Charges	\$ 1,360,588
Operating Margins after Fixed Charges	\$ 1,570,274
PATRONAGE CAPITAL CREDITS	\$ 56,051
Net operating margins	\$ 1,626,325
NON-OPERATING MARGINS	
Interest income	\$ 332,289
Other income	\$ 20,381
Fiber Optics Division	--
Net non-operating margins	\$ 352,670
NET MARGINS	\$ 1,978,996
OPALCO TIER	2.20
OPALCO Equity % of Total cap	45.6%
CAPITAL PROJECTS	
DISTRIBUTION	
New Services	\$ 170,000
Conversions and Line Changes	\$ 975,000
Equipment	\$ 3,640,000
Other Distribution Items	\$ 2,445,000
TRANSMISSION	
New Substations, switching Stations, metering point, etc.	\$ 600,000

Line and Stations Changes	\$ 3,025,000
OTHER	
Facilities	\$ 124,000
All Other	\$ 1,055,000
Minor Projects	\$ 90,000
Subtotal	\$12,124,000
CONTRIBUTION IN AID OF CONSTRUCTION (CIAC)	
New Services, Transformers, Meters	(\$318,000)
Community Solar Member Contributions	(\$300,000)

- **Motion** made by Myhr and seconded (Adams) to approve the 2016 budget as revised. Motion carried by voice vote with Cornelius voting "no".

### 2016 Rock Island Communications Budget

Lawlor presented the RIC 2016 budget. The Board commended the RIC staff on a job well done so far, noting their tenacity and the excellent team.

Lawlor presented that they have entered into a collaborative arrangement with T-Mobile, whereby RIC will provide the backhaul for T-Mobile in exchange for T-Mobile providing LTE equipment on 38 poles. Lawlor will be revising business plan and reviewing same with the Board upon completion.

### 2016 Rock Island Communications Budget

#### OPERATING REVENUES

Fiber	\$1,278,953
LTE	\$ 920,850
DSL / Canopy	\$ 693,283
Retail	\$ 120,000
IT Solutions	\$ 78,192
IT Services	\$ 120,000
TOTAL	<u>\$3,211,278</u>

#### COST OF SERVICES SOLD

Fiber Transport	\$ 109,704
DSL Transport	\$ 237,000
Retail	\$ 105,750
Services	\$ 96,000
Other	\$ 200,000
TOTAL	<u>\$ 748,454</u>

GROSS PROFIT \$2,462,824

#### OPERATING EXPENSES

Payroll	\$2,070,000
Depreciation	\$ 177,000
Professional Fees	\$ 366,660
Rent	\$ 132,000
Utilities	\$ 12,000
Other	\$ 200,000
Contractor Wages	\$ 52,000
Licenses & Permits	\$ 100,000
TOTAL	<u>\$3,109,660</u>

NET OPERATING MARGINS (\$ 646,836)

#### NON-OPERATING MARGINS (EXPENSE)

Interest Income (Expense)	(\$ 300,000)
Other Income (Expense)	800
Taxes	(\$ 32,000)
TOTAL	<u>(\$ 331,200)</u>

TOTAL NET PROFIT (LOSS) (\$ 978,036)

- **Motion** made by Myhr and seconded (Whitfield) to approve the 2016 Rock Island Communications budget that includes an accelerated borrowing of \$4.977M through 2015 year-end and the remaining startup loan for 2016 of \$2.6M for a total of \$7.5M startup funding. Motion carried by voice vote.



### 2016 Tariffs (First Reading)

In order to meet the projected revenue requirements within the Board approved 2016 Budget, a 5% rate increase across all billing components and rate classes was proposed. Two new billing line items will be added to member bills, including "Energy Assistance Program" to all rate classes and a "Demand Charge" to the all residential rate classes. Rates were modeled after 2015 average usage profile with forecasted kWh sales to members. The Commercial and other rate classes were not changed other than the ~5% increase to all billing components. Board discussion included:

- \* The Board discussed the demand component of member billing. OPALCO does not have demand meters in place and changing out the meters would cost ~\$2M. Members need to be educated about demand. The consensus of the Board was not to include the specific demand charge line item on the bill, however, the "Demand Charge" line item is to be for illustrative and educational purposes only for 2016 and will not include any billing charges.
- \* Decoupling (revenue/credit add-on) was discussed as was the difficulty of predicting Heating Degree Days (HDD). Charging monthly (or refunding) for the revenue/credit add-on allows for a lesser variability and assures that there will be enough revenue to meet the budget. The Board consensus was that a true-up mechanism had merit for ensuring that revenue requirements be met, particularly during times of low power demand for heating (low HDD), and that it can be revenue neutral for the membership by providing for either a charge or a credit on member's bills. Staff will present options to the Board at the December meeting.
- \* Elimination or modifying the kWh blocks for the summer/winter blocks was discussed. Some felt it penalized members for being energy efficient (i.e., heat pump users). Staff will present varying options to the Board at the December meeting.

### Policy 29 Rate Design (First Reading)

Draft revisions were discussed to allow for rate structure flexibility. The Board suggested adding language to include both charging and returning revenue to the members (true-up), calling it a Cost Recovery Charge/Credit.

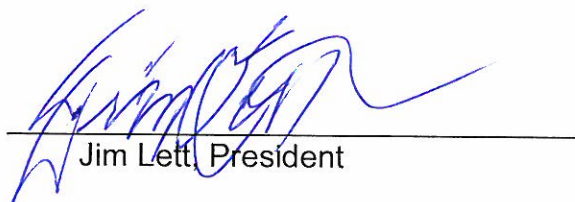
### Reports

- **Safety:** The October safety report was reviewed. There were 3 accidents during the month; each of the staff missed work. The Board reiterated that its Number One priority is Safety.
- **General Manager:** Hildreth reported that the bore at Otis Perkins Park on Lopez Island came in about \$100,000 under budget.  
The member survey and results are posted online and were presented at the Board work session November 19 by Cameron Madill of PixelSpoke.

*The Board convened to Executive Session at 1:25 p.m., reconvening in regular session at 1:50 p.m. to adjourn the meeting.*

### Adjournment

The meeting adjourned at 1:50 p.m.



Jim Lett, President



Jerry Whitfield, Secretary-Treasurer