

TO: Opelco Board

FM: Frank Bruch

SUBJ: Board Actions

As I member of this CO-OP I would like to submit the following questions and concerns.

OPALCO Response Overview:

Frank, thanks for your questions. The responses below draw on material available to all members, from our public website resource library. In our answers, we will try to balance keeping it simple, with providing depth and breadth of information related to your questions.

We reprinted your questions verbatim.

Your questions are shaded gray, our answer follows each of your questions, and start with the green header.

1. The Debt of this CO-OP has gone from 15,942 MM at end of 2012 to a projected (by the board) to 50MM plus at the end of 2016. The projected Debt at the end of 2017 is projected to be 52,209MM. This is not sustainable with the current revenue flow!

OPALCO Answer:

Frank, thanks for reading the budget material carefully and being observant about this. Your two numbers above are correct. But that is not the end of the story.

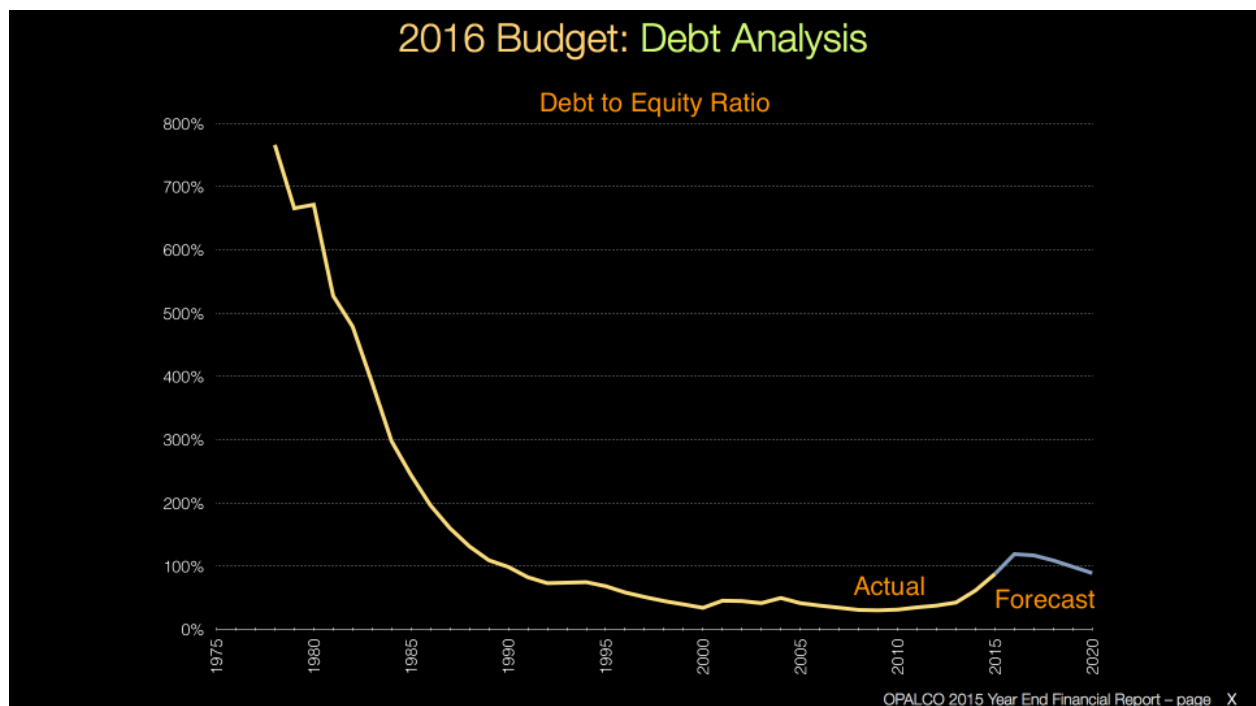
Referring to the 2016 budget, note that debt begins to taper back down after our submarine cable project in 2017, dropping to \$46 million in 2020. We are in a period of very low interest rates, doing prudent capital investments that will be curtailed in future years.

As a nonprofit co-op, revenue and expense are always kept in balance. Revenue is largely driven by fairly unpredictable winter weather. Expenses are largely driven by predictable capital projects.

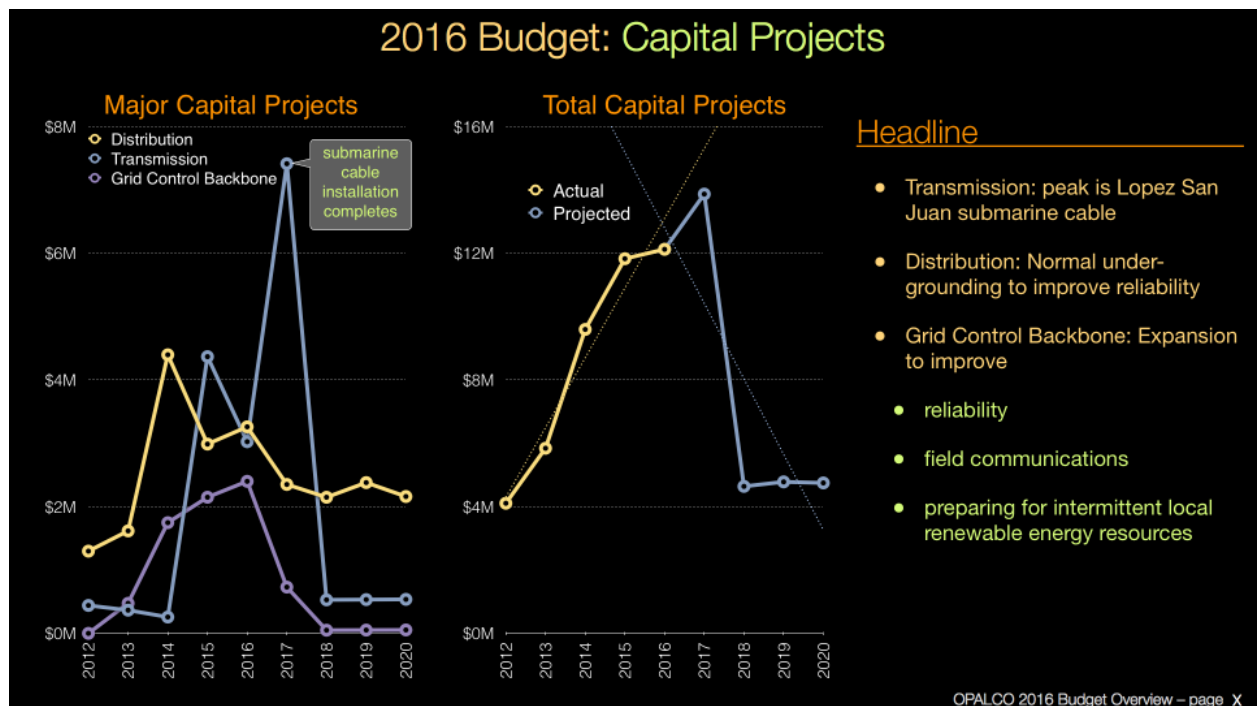
Co-ops use debt to finance large projects. See more below about debt versus equity finance.

Throughout OPALCO's 79-year history, the total amount of debt the Co-op takes on has steadily risen, in relationship to steadily rising costs of capital construction projects. The increase to debt over the life of the cooperative is a steady one percent and is balanced by the co-ops growth in equity. Our equity is healthy at 51% (as of year-end 2015). Our lender, USDA/RUS, considers 51% a very healthy level. For them, equity less than 30%, or over 60% would be of concern.

Using the standard debt equity ratio financial metric (see chart below), note how the debt equity ratio is in much better shape than back in the capital intensive years in the mid-20th century (major submarine distribution cable projects). This is because, while capital projects are still large, co-op equity is much larger. In other words, the co-op has grown in plant and assets.

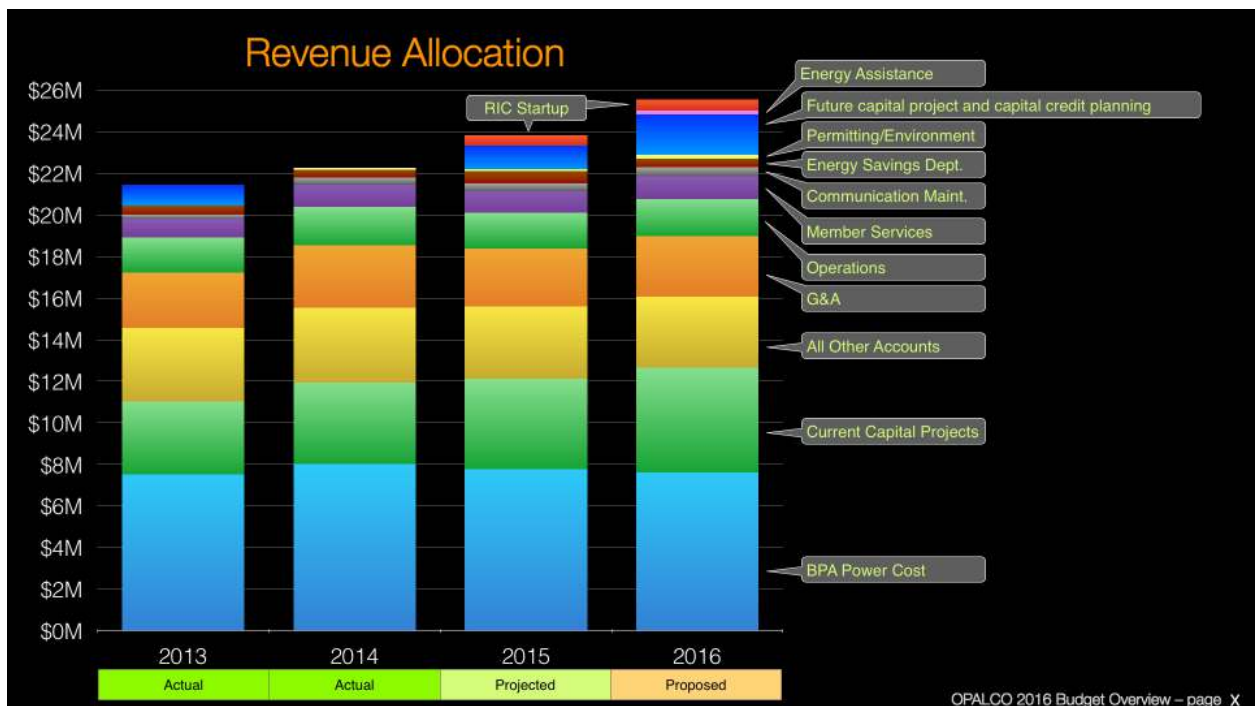


As we increase debt for major capital projects (submarine cable and grid modernization), debt equity ratio rises up, but capital spending returns to 2012 levels in 2018 (see chart below).



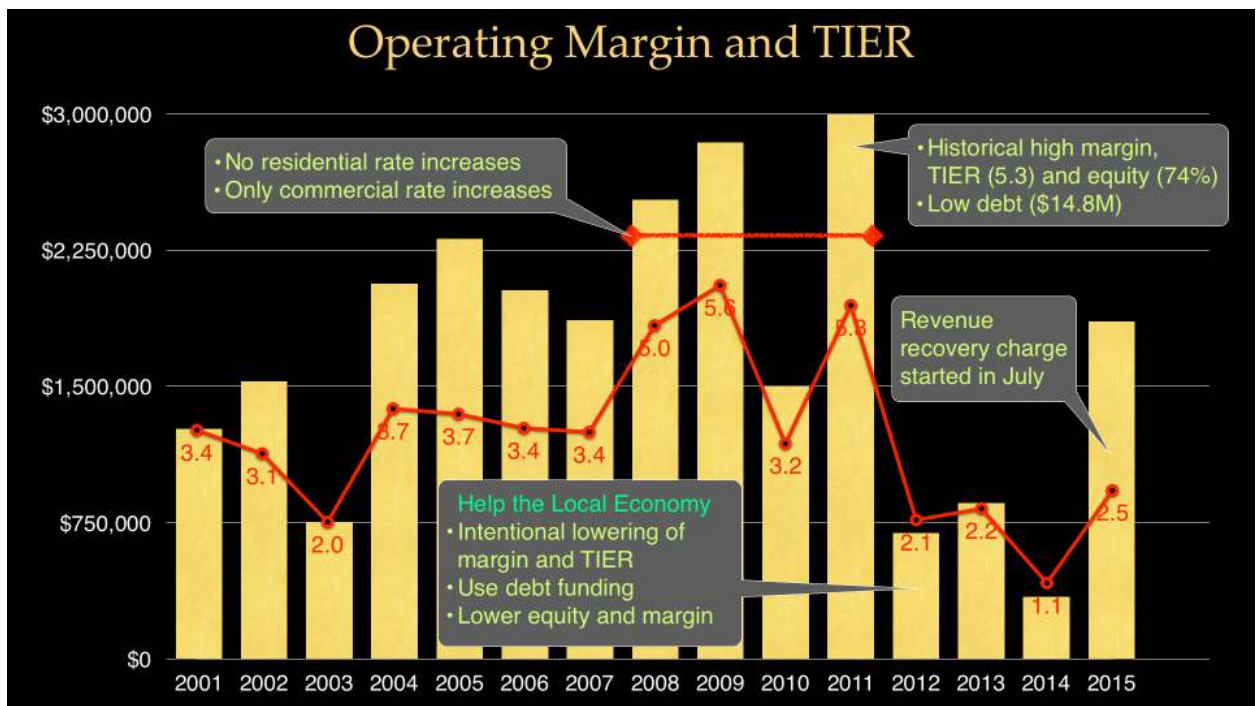
Our debt and equity positions have exhibited the ebb and flow consistent with major capital projects as we have built and maintained our cooperative. Our lowest historical equity position was -11% in 1955 and it remained negative through the 1960's as we installed the first submarine cables. It took until 1986 to reach greater than 30% equity, dipping again in 1992 following major under-grounding projects, started in 1990-1991, and a submarine cable installation. We reached our peak equity in 2006 at 75%.

For additional background, the chart below shows how revenue is allocated, for capital projects as well as other expenses.

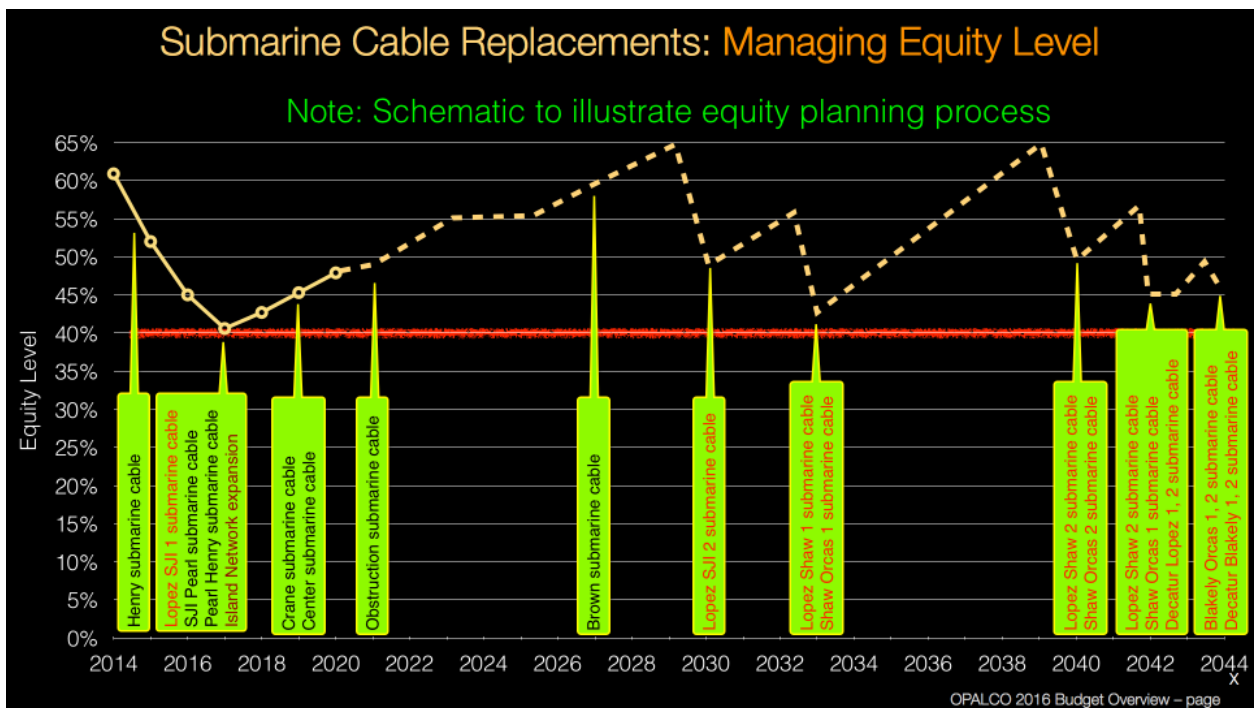


As a co-op, we have a choice on whether to use debt or margin to fund projects. In 2010, in the midst of the great recession, the board chose to use debt to fund capital projects, and therefore reduce our high margin level.

Think of margin as a savings account (see chart below). Any money in the savings account came from members. The higher the margin, the more money members paid through rates. By reducing margin and replacing it with debt, it keeps the money in co-op member pockets longer and takes advantage of the historic low interest rates available to the co-op.



Referring to the chart below, this ebb and flow pattern will continue as we expand and modernize our infrastructure, replace aging submarine cables and then recover from each major capital project. This ebb and flow is challenging and requires a steady hand on the tiller. With slowed population growth, increased energy efficiency, warming winters – all good things in themselves – and with flat energy sales for the foreseeable future, we are living in a new world. We meet that challenge with careful management of expenses while fostering new revenue sources.



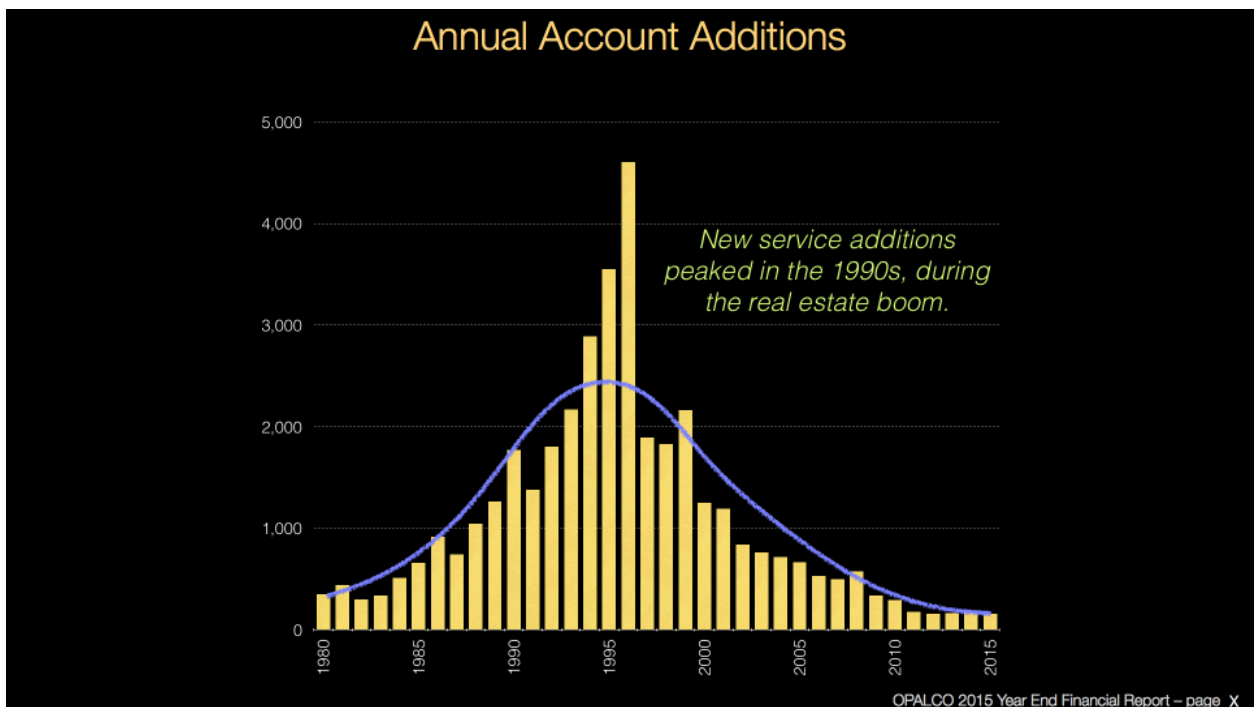
With historic low interest rates, this is a wise use of member resources to carryout capital project improvements now, using low interest debt, rather than member equity. This investment prepares the grid and the community for the flattening of energy demand and associated revenue.

There are three categories of expenses we work with each day:

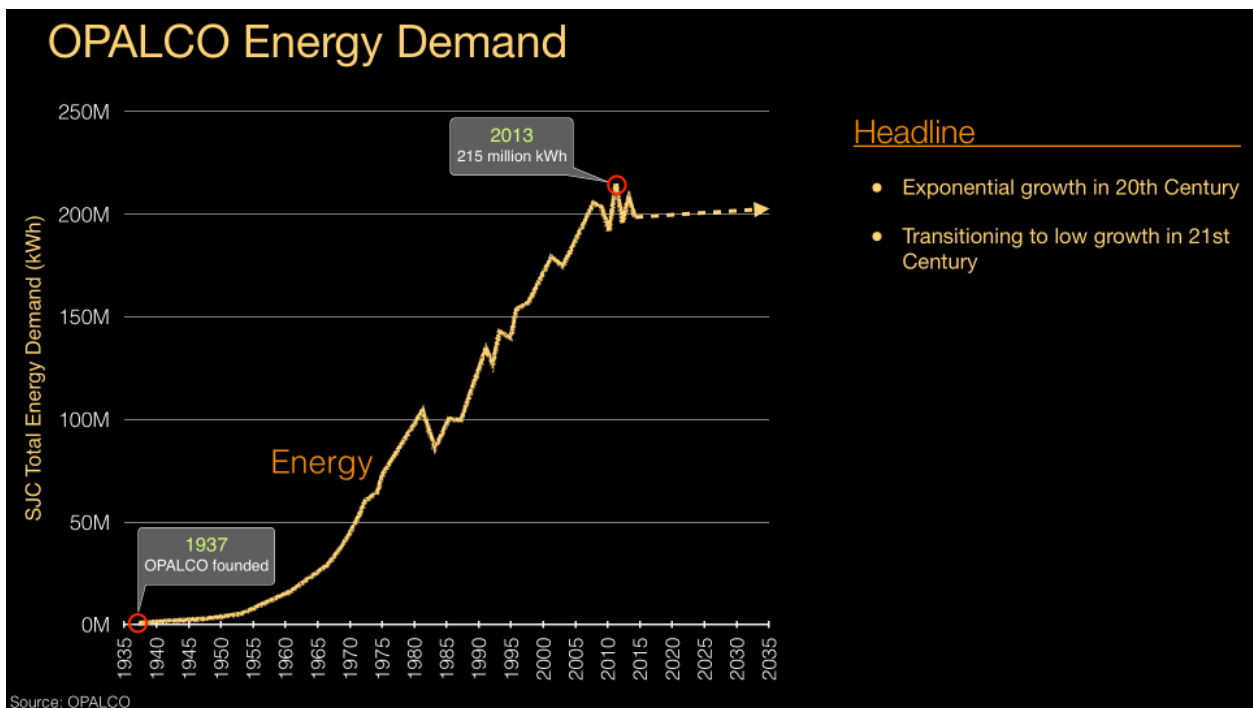
1. Things like submarine cables replacement and under-grounding of distribution cables that cost a lot, but are more about maintaining reliable service than increasing income.
2. Things that reduce expenses and increase reliability, such as grid modernization, beefing up distribution cables to reduce losses and increase cable life, and managing our co-op more cost effectively.
3. Investments that generate a return, either directly or indirectly, such as: Improving public safety through better first responder communications network; providing heat pump rebates to encourage members to switch from expensive fossil fuels to lower cost electric heating; or Rock Island, where \$3 per month per member investment for two years generates \$9 per month in

revenue per member in future years. And we help the community make a better living beyond the tourist economy of present, making a living wage in the information age

This flattening of energy sales is important. Co-op membership growth peaked in the 1990s and has flattened in the past few years (see chart below).

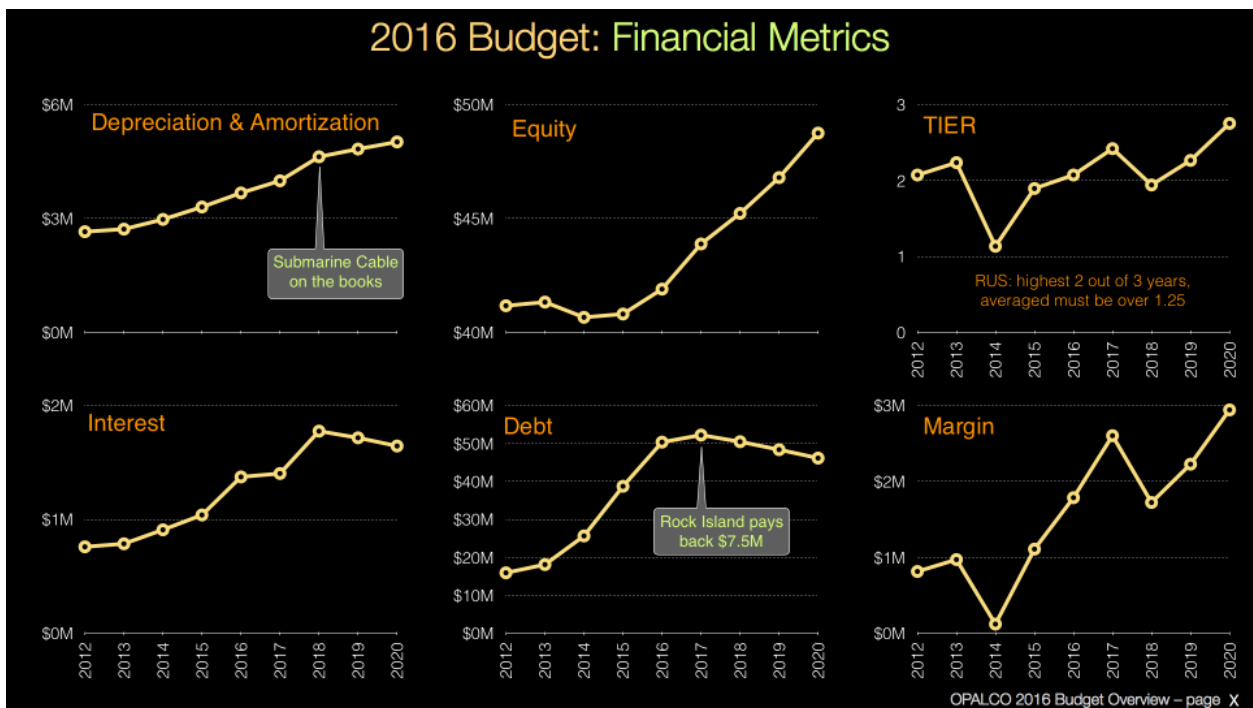


Energy consumption also recently flattened (see chart below). And energy usage is expected to be flat for years to come, while expenses are projected to increase slightly above US inflation (but perhaps in-line with county inflation (housing, food, etc.)).



In November of 2013, the Board made a conscious and unanimous decision to accelerate the expansion of our grid to serve our membership with broadband services and to use equity and rates to fund that expansion. In the Capital Projects chart referred to earlier, debt has increased \$17M. Of this, \$8.8M was used for OPALCO capital spending on the electric distribution system, \$3.2M for modernization and expansion of our communications grid, \$1M on our transmission side for the Submarine Cable Project (total spending for the submarine cable project is projected to be \$15+ million) and \$4M in the form of a loan to Rock Island Communications for start-up operations.

The chart below summarizes actual and forecast financial metrics for the Co-op. Note how equity continues to strengthen, debt settles back once the submarine cable replacement project completes and Rock Island pays back loan to the co-op. TIER and Margin also continue to strengthen.



As mentioned above, interest rates are low and this is a good time to carryout capital improvements, avoiding the larger debt expense that would accrue if we started those projects in a higher interest rate environment.

These projects also have the benefit of stimulating local job growth, post recession, in our county, where working wages are about 35% below the state average, an unfortunate characteristic of a tourist economy. We think this is wise use of member resources and an excellent approach to investment in co-op and community.

2. What is the Spread between the cost of power from Bonneville Power and the KW rate being charged its members from OPELCO? 2012 by year through 2016

OPALCO Answer:

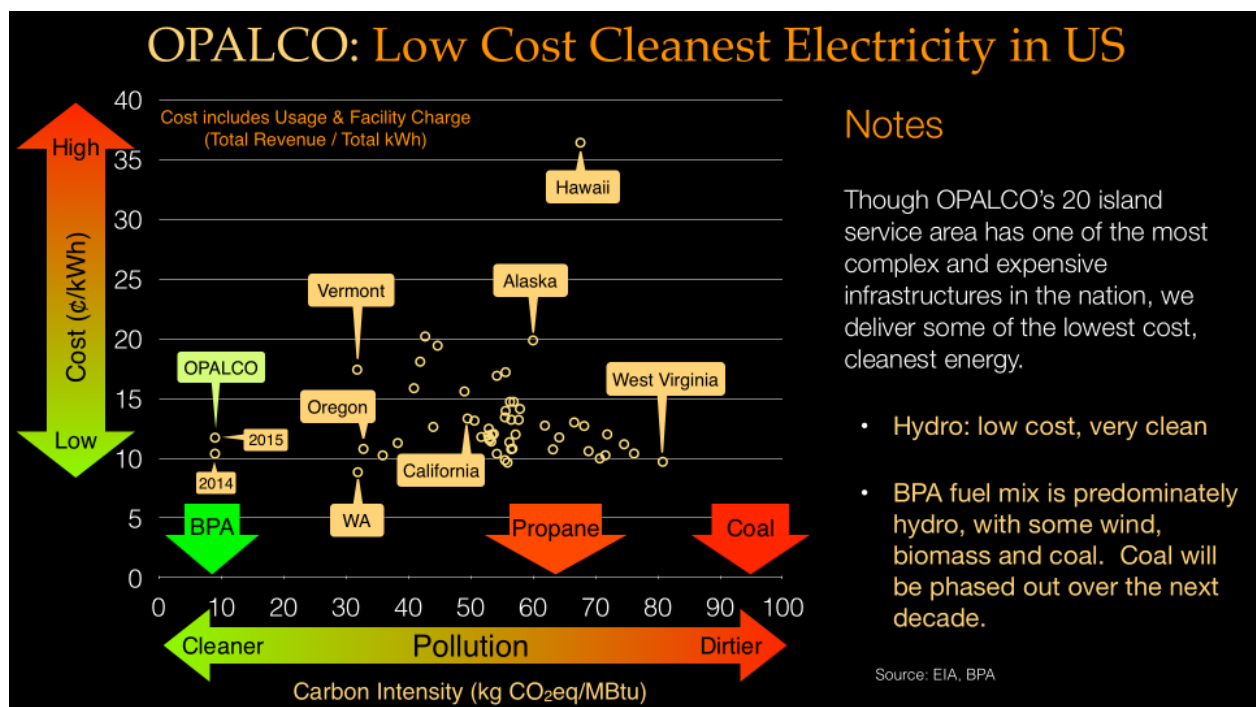
The co-op typically buys electricity from BPA for about 3.4¢ per kWh.

The co-op sells electricity for 8.92¢ per kWh to retail members. Here's a link to the residential rates and tariffs: <http://www.opalco.com/wp-content/uploads/2015/12/R-16-Residential-Service.pdf>

The co-op sells electricity for 9.04¢ per kWh to small commercial members. Here's a link to the commercial rates and tariffs: <http://www.opalco.com/wp-content/uploads/2015/12/SCS-16-Small-Commercial.pdf>

That's comparing BPA usage rate to OPALCO retail usage rate.

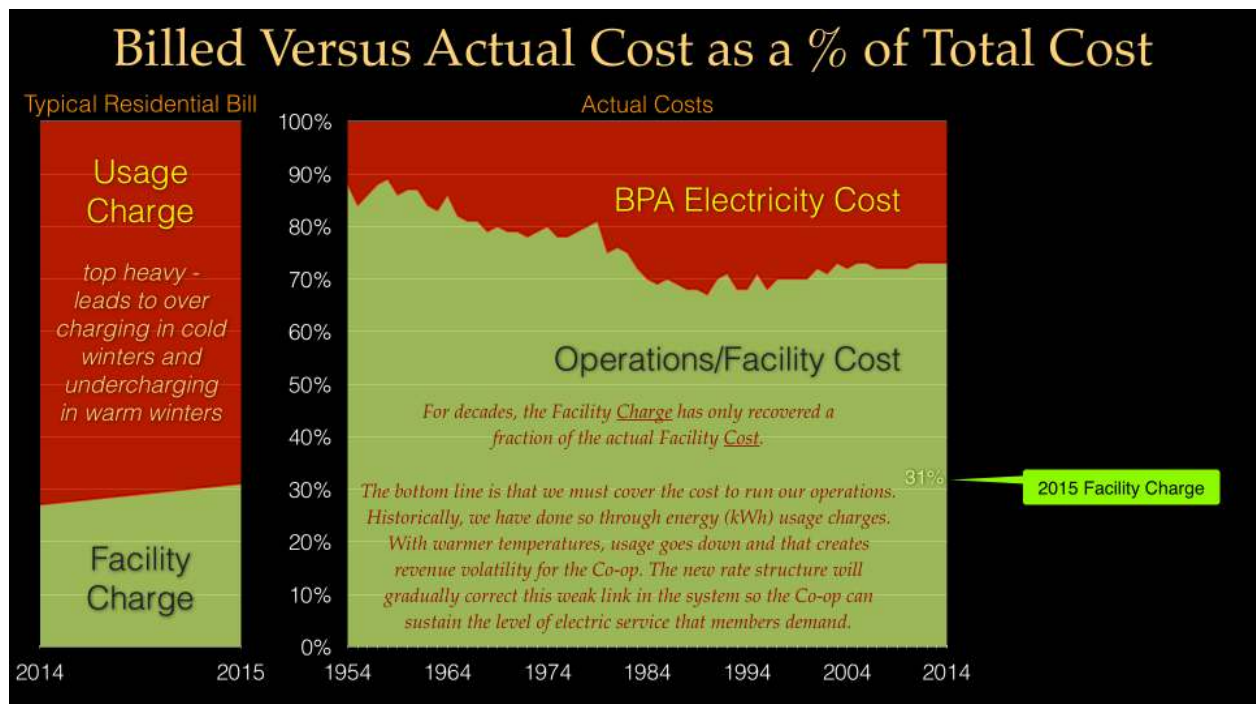
It's also good to add the facility charge in. This yields a higher aggregate rate. The chart below shows a comparison of OPALCO rates (facility charge + usage charge) compared with the rest of the US. Worth noting, most states with low cost electricity get there with coal, which is very dirty (e.g. West Virginia). OPALCO rates benefit from the low cost, clean, hydro-based energy from BPA.



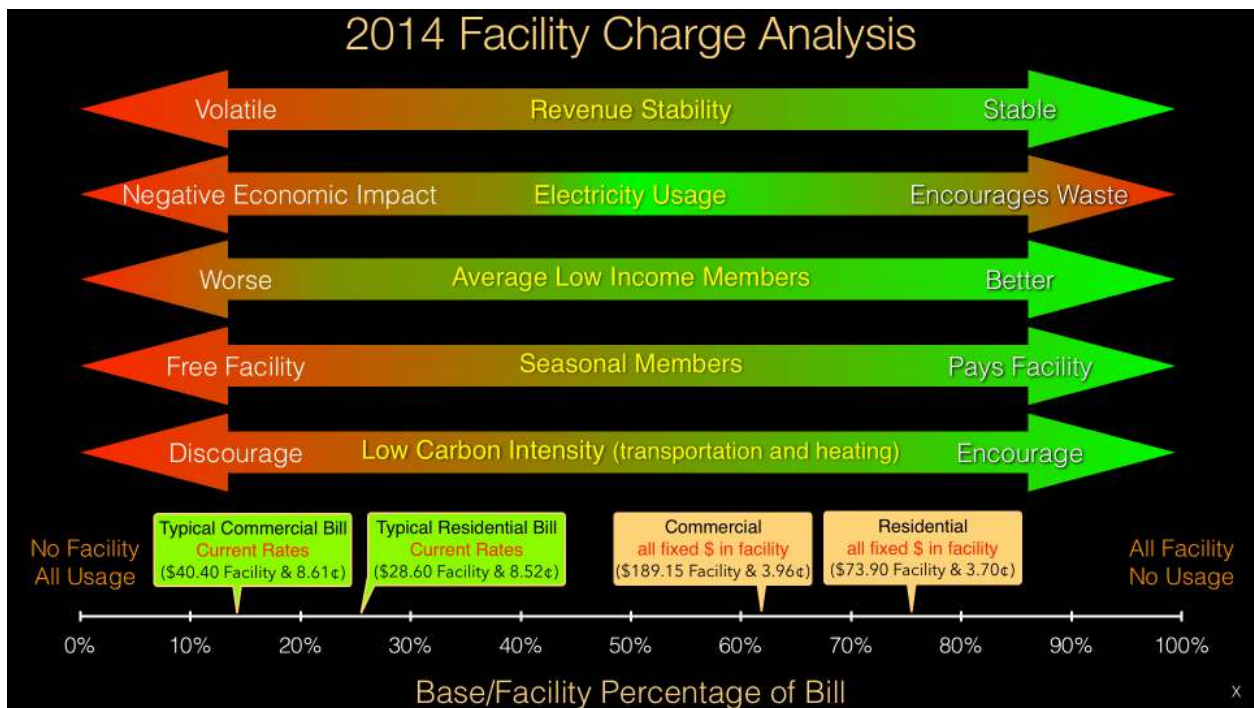
The chart below provides a comparison of the billed versus actual cost for energy usage and facility charges. Note how the billed facility charge is a fraction of the actual facility costs. Serving a 20 island rural community in a marine environment with many miles of submarine and buried cable is more expensive than the mainland, which have higher population densities and industry, generating more revenue per

mile of grid. Effectively, mainland urban utilities have a much larger population to spread their facility cost across.

Having a top heavy usage charge (depending on usage to pay for facility costs) means co-op revenue is more sensitive to the variables of weather. And seasonal members share of the facility costs are unfairly born by the rest of co-op members, since they use less energy in the winter, but they still have the facility running to their home, incurring cost to the co-op.



The co-op tries to strike a balance between facility charge and usage charge. The chart below shows some of the pros and cons of having facility charge and usage rates too high or low.

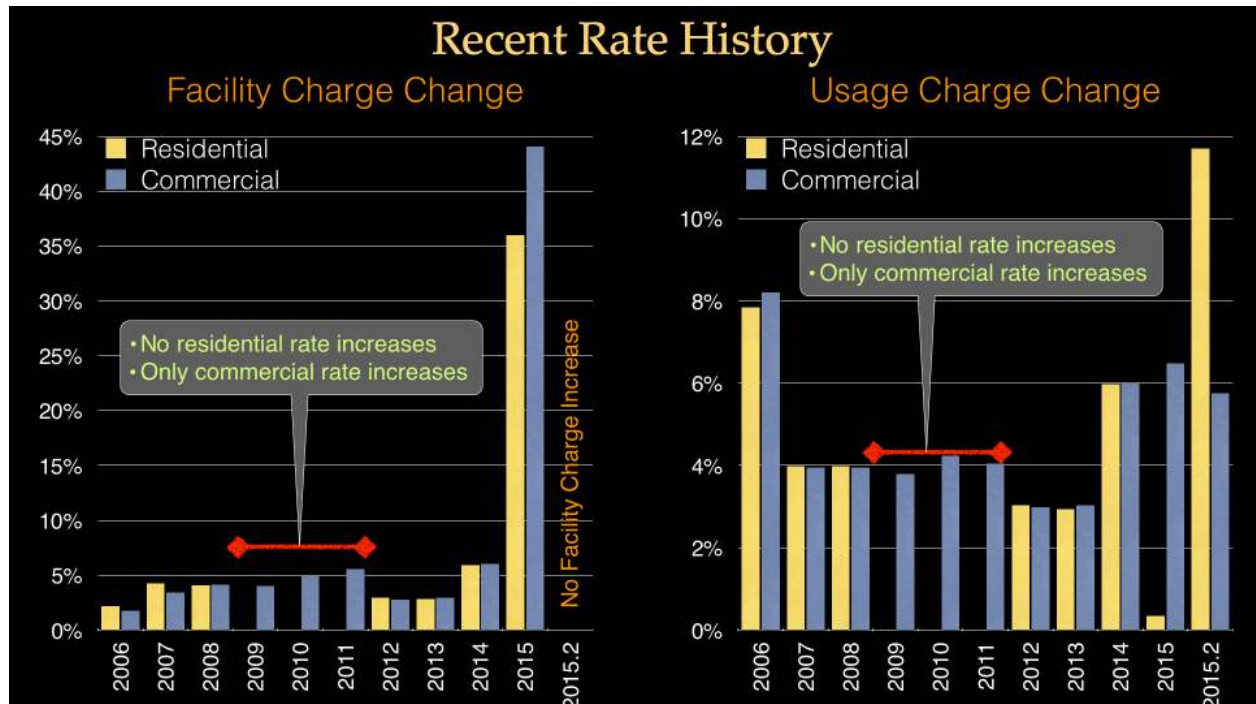


- According to your projections the KW cost 2016 of 8.9 per KW will continue to increase EVERY year through 2020 to a rate of 11.13 per KW.

OPALCO Answer:

We assume you are asking about kWh and not kW. And it looks like you are applying the projected rate increase to just the usage charge and not the facility charge. The board has indicated their view that splitting the increase across usage and facility charge is a more balanced approach. And, in any given year the actual rate increase depends on how warm or cold the previous winter was, and load forecast for the forthcoming winter. If we had a cold winter, the co-op probably made more money than expected, and therefore has less need to raise rates. If it was a warm winter, then revenues could be less than budgeted, resulting in a need to raise rates. This is the nature of undercharging for facility cost and making it up in weather sensitive usage charges.

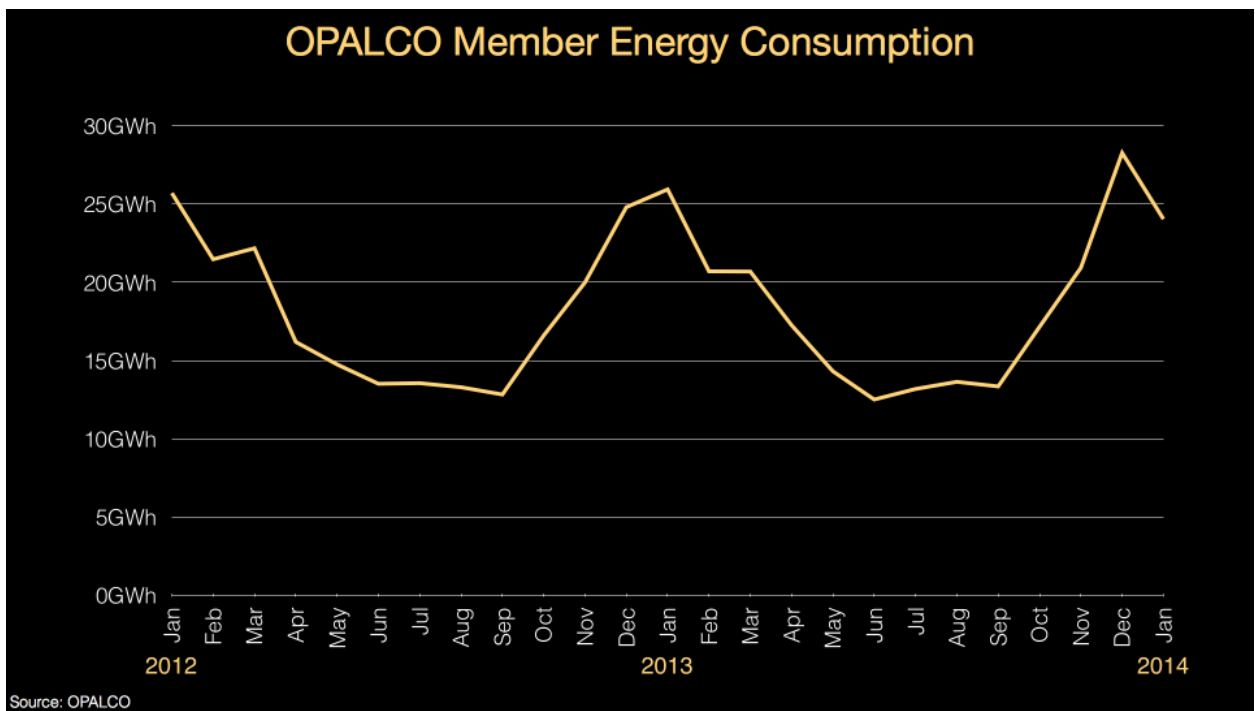
The board also considers a variety of conditions beyond load and expense. For example, during the recession, the board chose to not raise residential rates 2009 through 2011 despite costs continuing to rise (see chart below).



OPALCO revenue is largely driven by winter usage. Rates are designed to generate revenue based on forecast weather. Weather is unpredictable. As mentioned above, the more revenue that is collected from the usage charge, the more it is subject to the unpredictability of weather. This increases revenue volatility. So splitting revenue increases between usage and facility charges helps moderate that volatility.

Because of the unpredictability of winter weather, in any given year, the actual rate may be more or less than what is projected. Reiterating what we said above: Cold winters generate more revenue than normal, and warm winters generate less.

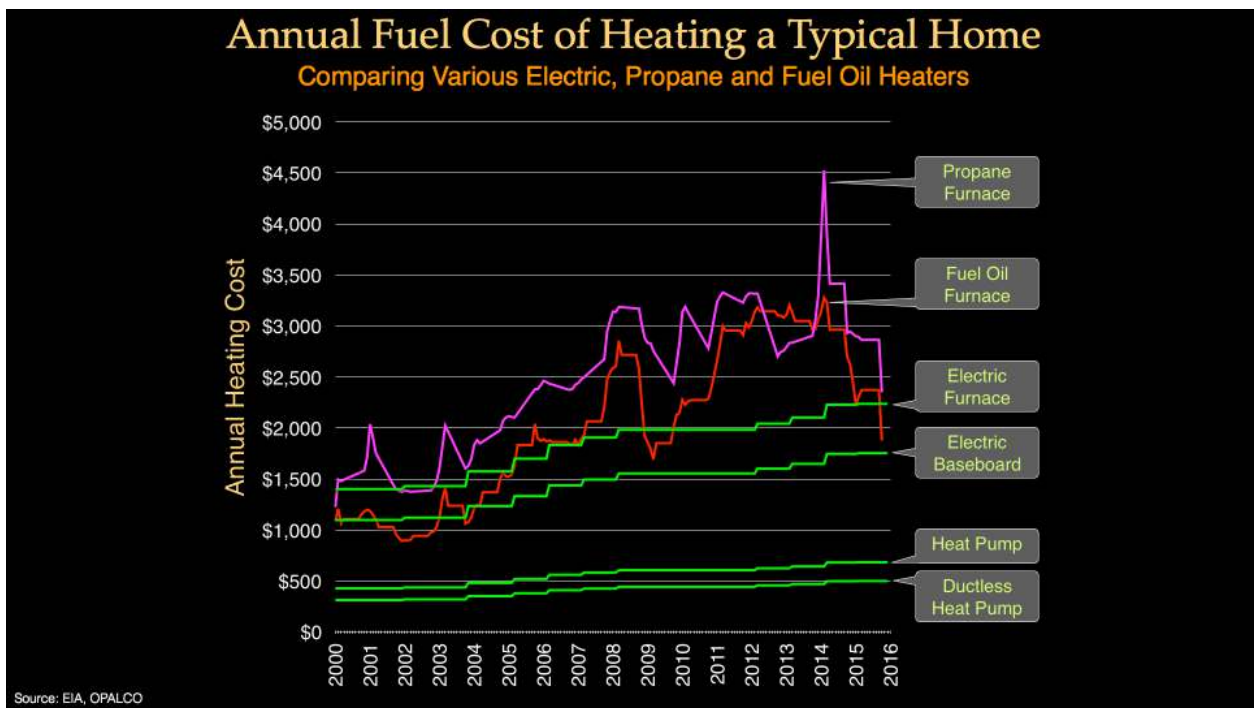
The chart below shows how member energy usage varies with the seasons:



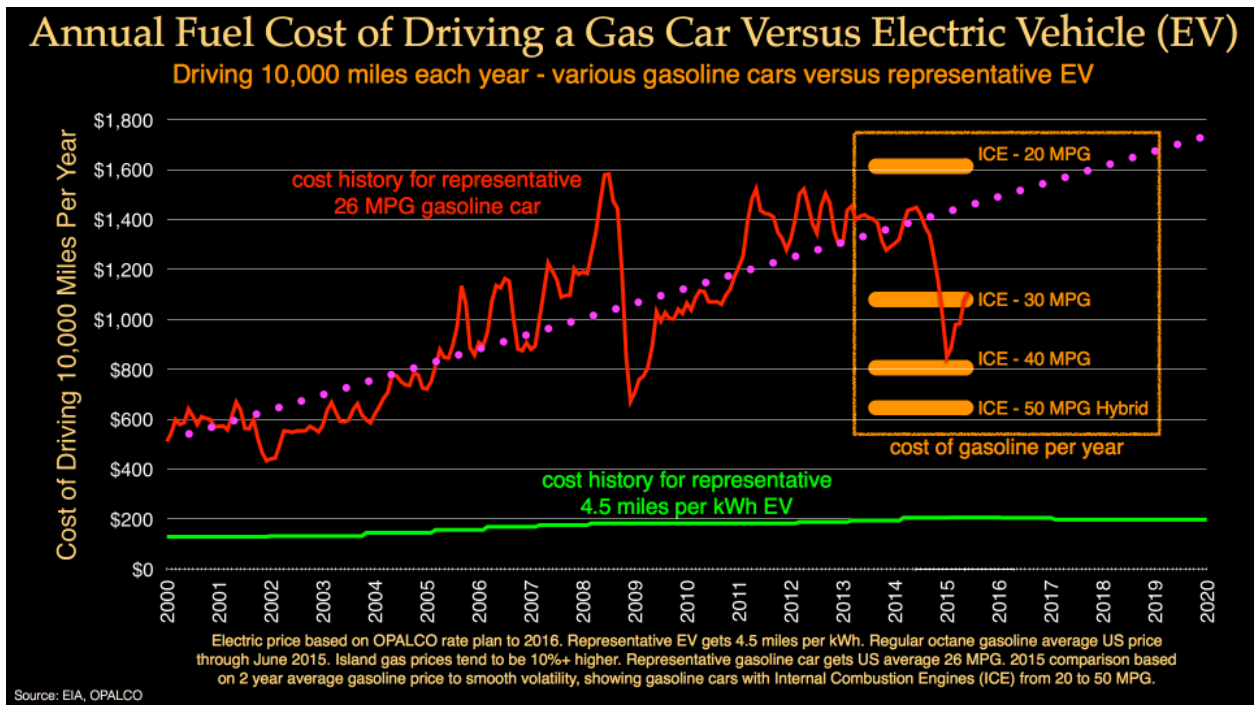
The past two winters have been El Niño years, so they have been much warmer than normal, and hence kWh sales, and thus revenue, decreased significantly. Each year we update our forecast and those numbers are subject to change. So take projections with a grain of salt.

Keeping usage rates low has an additional advantage. OPALCO energy, efficiently used, is lower cost than propane, fuel oil or gasoline for heating and transportation (electric vehicles). We endeavor to keep the usage rate lower than competing forms of energy. This allows members to reduce their TOTAL energy bill by shifting to electricity from more expensive sources (propane, fuel oil, gasoline).

The chart below shows the cost of various forms of electric heating versus propane and fuel oil. Note how OPALCO energy is generally lower cost and less volatile.



And this final chart shows the cost of driving an electric vehicle versus gasoline vehicle. Note how OPALCO electricity is much lower cost and less volatile than gasoline costs.



At the end of the day, providing reliable energy to a small population spread across 20 islands, connected by 1,300 miles of cable, including 16 miles of submarine cable, running through 11 substations, 4 warehouses, and 2 public offices (when one of each would do on the mainland), makes for a complex and expensive capital intensive grid. With near flat growth in membership and energy consumption, but costs increasing at or above inflation, rates will continue to rise, moderated by new sources of revenue.

And as it is with the co-op, so it is with other sectors of the county economy: Housing costs, grocery prices, water bills – most costs are going up, especially post-recession.

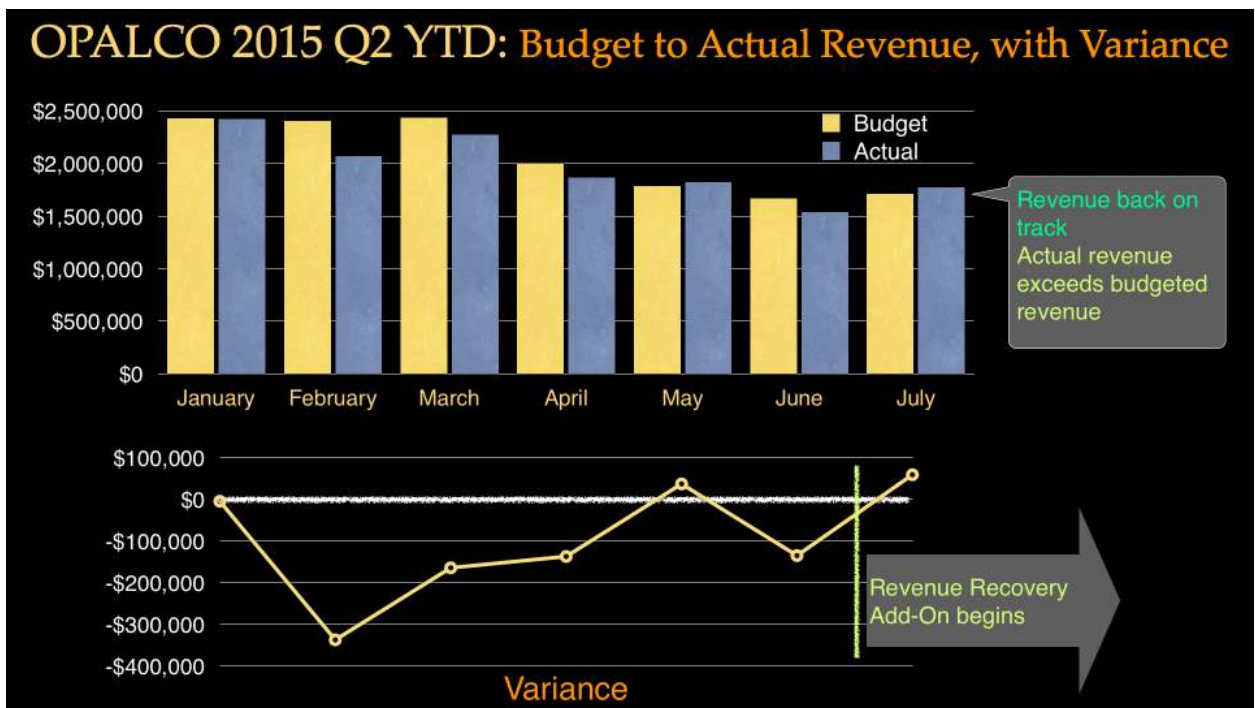
4. REVENUE RECOVERY ADD-ON: At the end of 2015 what was the amount recovered?

OPALCO Answer:

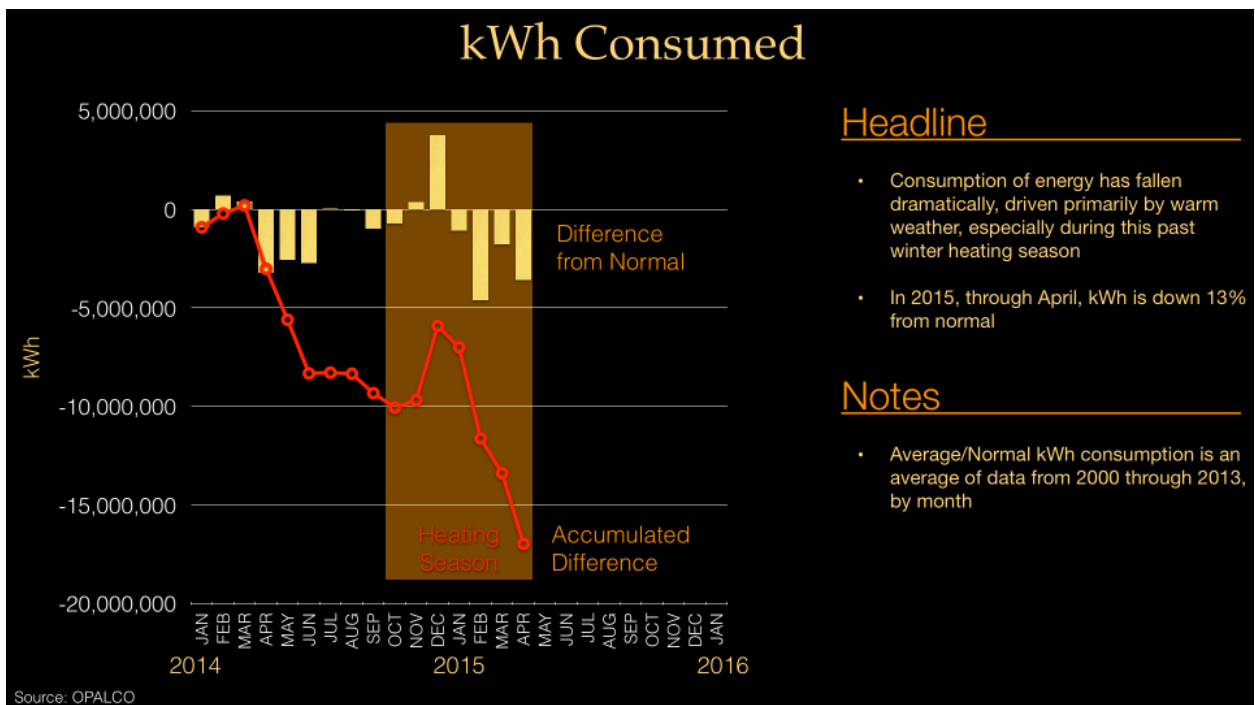
The total revenue recovery was \$766,322.80 (July 2015 thru December 2015 billing period).

As mentioned above, we are a co-op, with no profit expectation. We just need to cover costs, since the facility charge under collects actual facility costs, and usage charge is weather dependent, the co-op uses a mix of expense control and rates to make sure expense and income balance. The revenue recovery fee helps us do that to stay financially solid in the presence of unpredictable revenue and large fixed expense.

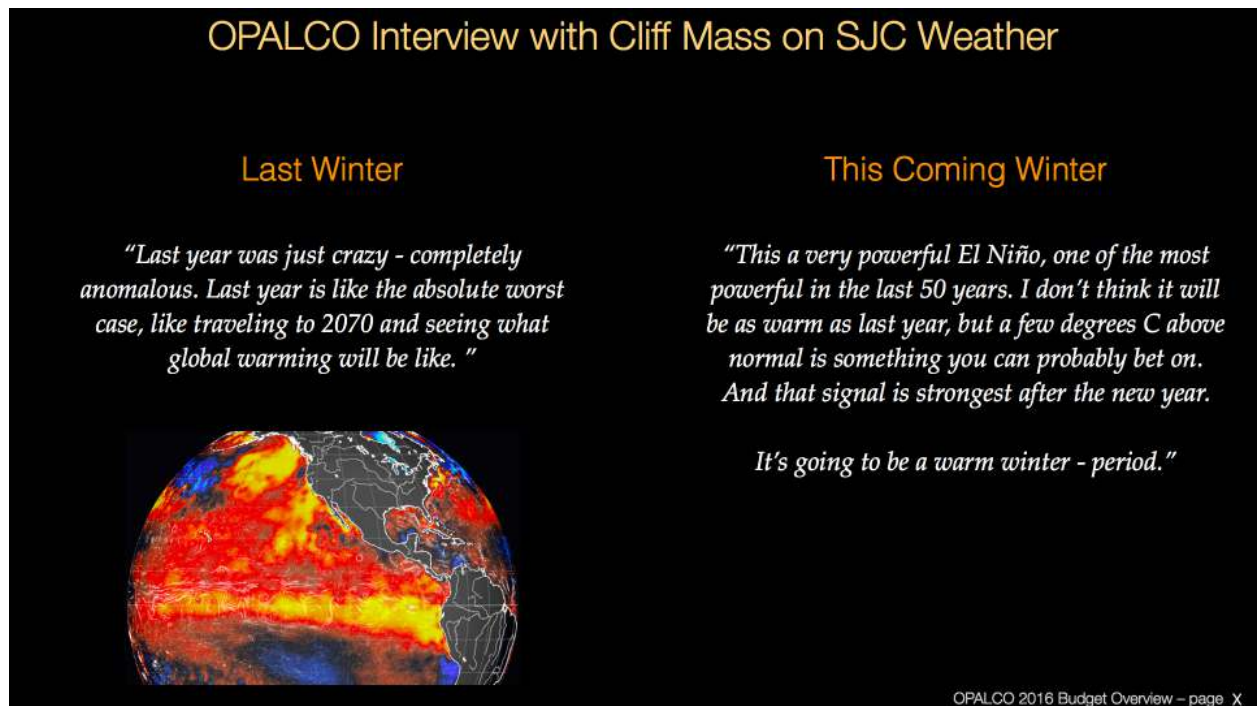
The chart below shows how the revenue recovery add-on helped recover from the lower kWh sales.



The chart below shows how kWh sales were consistently below normal patterns. Note how the accumulated reduction was over 15 million kWh. But while kWh fell, expenses didn't. Hence the revenue shortfall.



This warm winter pattern in place the past two winters is important to understand. As part of our load forecasting we talk with climatologists, BPA, and weather experts, to try to gauge how cold or warm a winter we may have, and project kWh load forecast and revenue from that. The chart below shows quotes from our conversation with Cliff Mass regarding the 2014/15 winter (marked *Last Winter*), and the 2015/16 winter (marked *Coming Winter*). Note his comment about how the last winter was “completely anomalous” and “absolute worst case.”



Going forward, as we transition from the wet warm El Niño to the typically cooler dryer La Niña cycle, we expect these unusually warm winters to abate, returning kWh winter usage patterns to the trend and reducing revenue volatility, for the time being.

The revenue recovery mechanism ensures adequate revenue in the presence of unpredictable revenue shortfall due to weather variability. It is also worth noting that when the weather is colder than predicted, it will result in members receiving a credit.

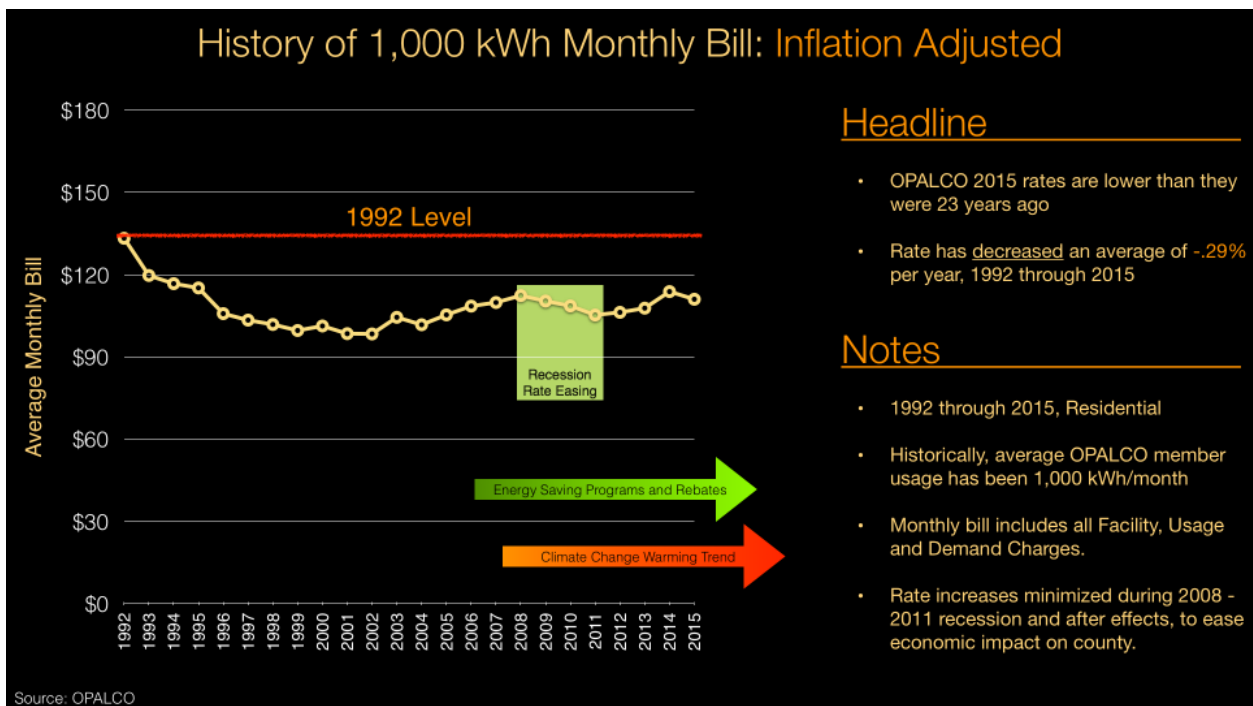
5. Facility Charge: Increased from \$38.90 in 2015 to \$40.54. My question is can the board continue to increase this charge without a vote of the membership? Is there a cap on the amount that can be assessed going forward? If so what is that amount?

OPALCO Answer:

The Co-op Board is elected by the membership to make these and other decisions, on the behalf of the membership. One of the fundamental principles of a co-op is that we charge and collect the “cost of service.” As mentioned above in Question 3, if you are on the mainland, you have a large number of customers and industry to spread your fixed costs across. In our rural area, not so much.

The Board can increase or decrease facility and usage charges as needed, without a vote of the membership. The Board reviews the budget each year and determines what rate is needed to generate the needed revenue, based on the load and weather forecast. That is a fundamental responsibility of the Board.

There is no concept of a cap, rather, the concept is to collect revenue to pay *cost of service*. Some years there is no rate increase, some years there is. For example, the chart below shows the average member bill from 1992 through 2015. Note that there were years when electric bills went down, and years when it went up, as rates held steady or increased. Also worth noting is that since 1992, rates have not kept up with inflation. Referring to the chart below, the average member bill is less now than it was in 1992.



And the notion of inflation in San Juan County is nuanced. Studies of the cost of living, especially for low or fixed income members show what may be a higher rate of inflation in the county due to the higher cost of getting goods to the islands, lack of affordable housing, gasoline, etc.

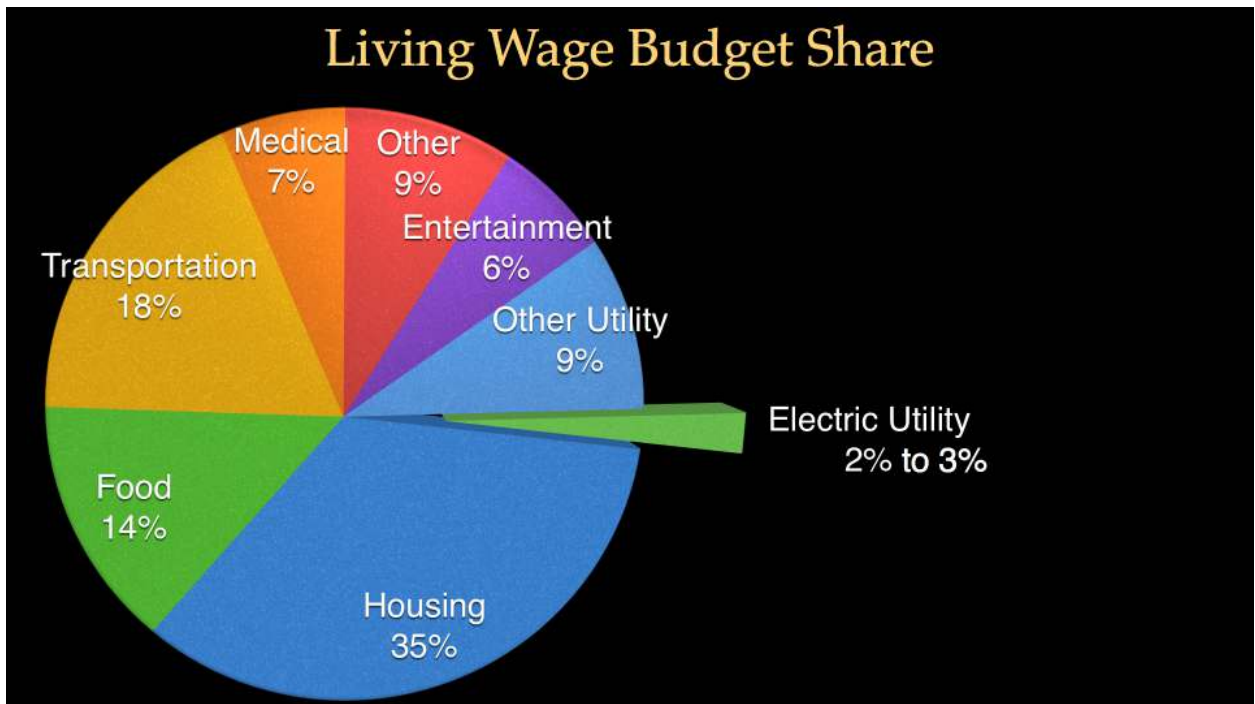
6. The CO-OP currently has the “PAL” program which is volunteer. Why did the board feel it needed to add the “Energy Assistance Program”? Was the membership asked to vote on this? If not why not!

OPALCO Answer:

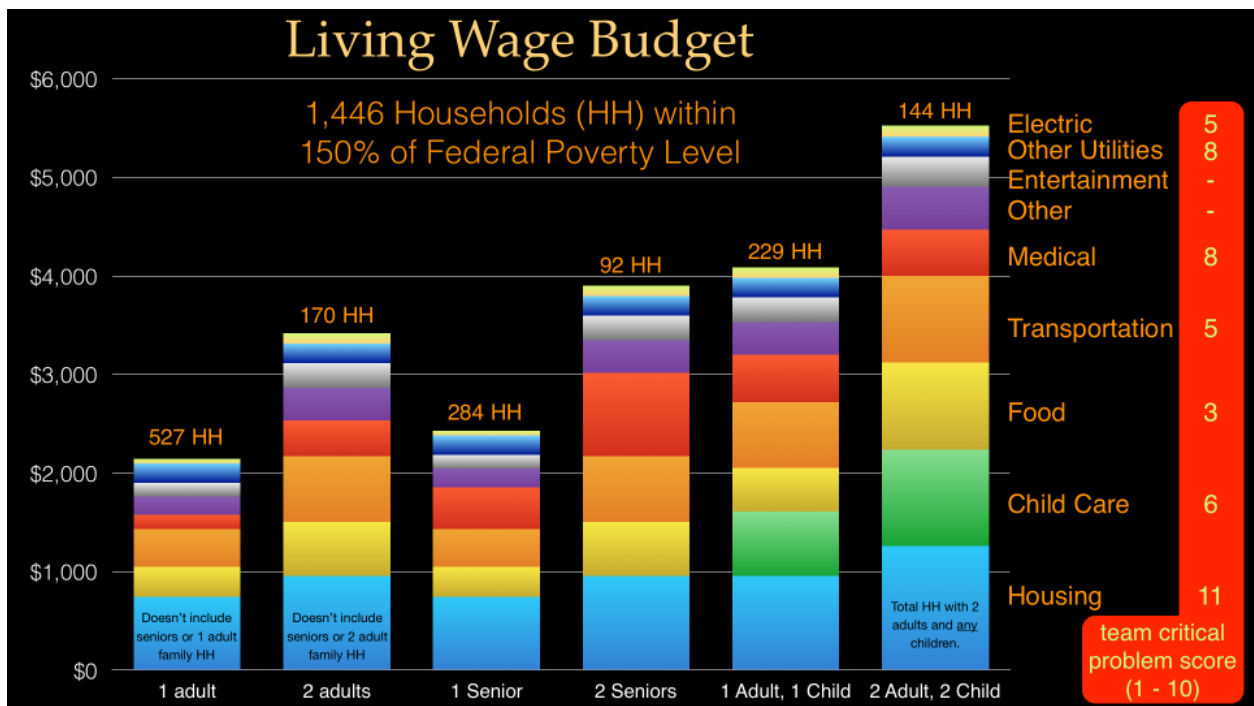
Only 30% of co-op members round up their bill to support PAL. More assistance is needed, and many members encouraged the board to strengthen the assistance program to make sure, with increasing rates, low- and fixed-income members, especially seniors, have help if needed.

There is a need for both programs. The Energy Assistance Program is a monthly bill credit for qualified households. PAL provides emergency assistance only once a year. The Board sees a fundamental obligation to support the community. We are all in it together.

As part of the thought process on how to help, the Co-op met with a number of stakeholders in the community (it came to be called the Low Income Working Group), to understand low/fixed income challenges in the county. Referring to the chart below, the group broke household budget down to eight areas of expense. Though the co-op share of the total budget is a small share, it is an important share, especially for very low income households.



The group ranked electric bills a “5” on a scale of one to ten, with ten being most critical. Note that housing got an “11” and stands as a major expense, growing rapidly, with little near term relief in sight.



The board, with member encouragement, wanted to make sure we did what could for the electric part of the household budget, and encouraged other utilities and services to step up too.

The new Energy Assistance Program (EAP) is designed to make sure those that need help can get it, either through PAL or the EAP. The EAP program is easier to apply for (using pre-existing assistance qualification such as school lunch programs, LIHEAP, etc.) and while PAL applies to 200% of Federal Poverty Line (FPL), the EAP provides broader coverage to those up to 150% of FPL. There was no vote, although with many issues before the board, members' feedback at board meetings was in strong support of deepening assistance.

7. How much was budgeted for to cover the costs of Broadband? What is the time frame for this amount to be used? So far what amount has been used vs the budget? Is the board going to need additional funds to complete this project? How much?

OPALCO Answer:

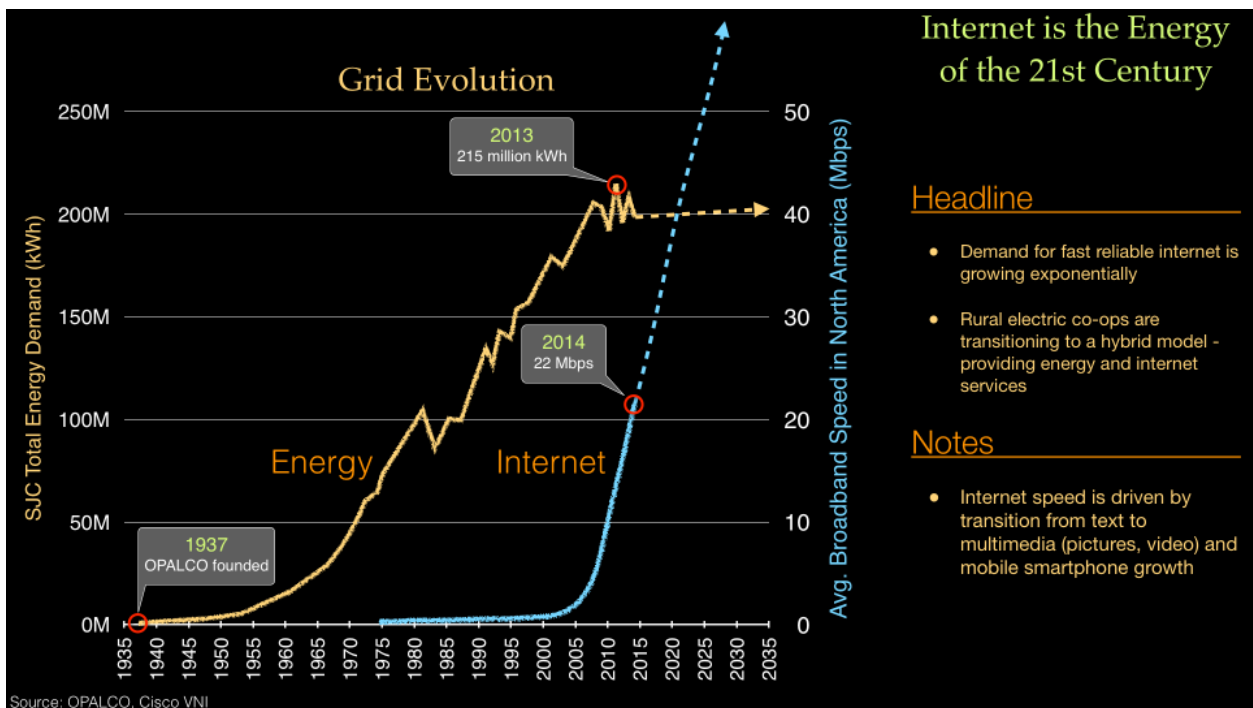
\$7.5 million was budgeted, in a timeframe through 2016. \$4.9 has been used. For more on that, see 2015 year end financials.

We hope no additional funds will be needed. We are updating the business plan and growth projections and monitor Rock Island performance closely, with monthly updates at each board meeting.

If there is a need for additional funds, it would be a short-term need. The agreement with T-Mobile accelerates how quickly we can deploy LTE wireless internet services, while reducing the number of poles needed from 120 to 38. This has several important benefits.

1. T-Mobile pays all LTE wireless equipment capital costs. This reduces Rock Island capital costs.
2. The T-Mobile systems are state of the art. This improves the quality of LTE wireless services to Rock Island subscribers.
3. T-Mobile will maintain and operate the equipment. This reduces Rock Island operational costs.
4. Rock Island was going to grow the LTE wireless network slowly and incrementally, signing up subscribers as each pole was configured. This was a slow process. Now, with T-Mobile as installation partner, Countywide LTE wireless will be implemented by end of year, rapidly expanding reach and offering service to subscribers much more quickly than the incremental plan. Those with poor internet access, not near fiber, will have access to LTE wireless service sooner.

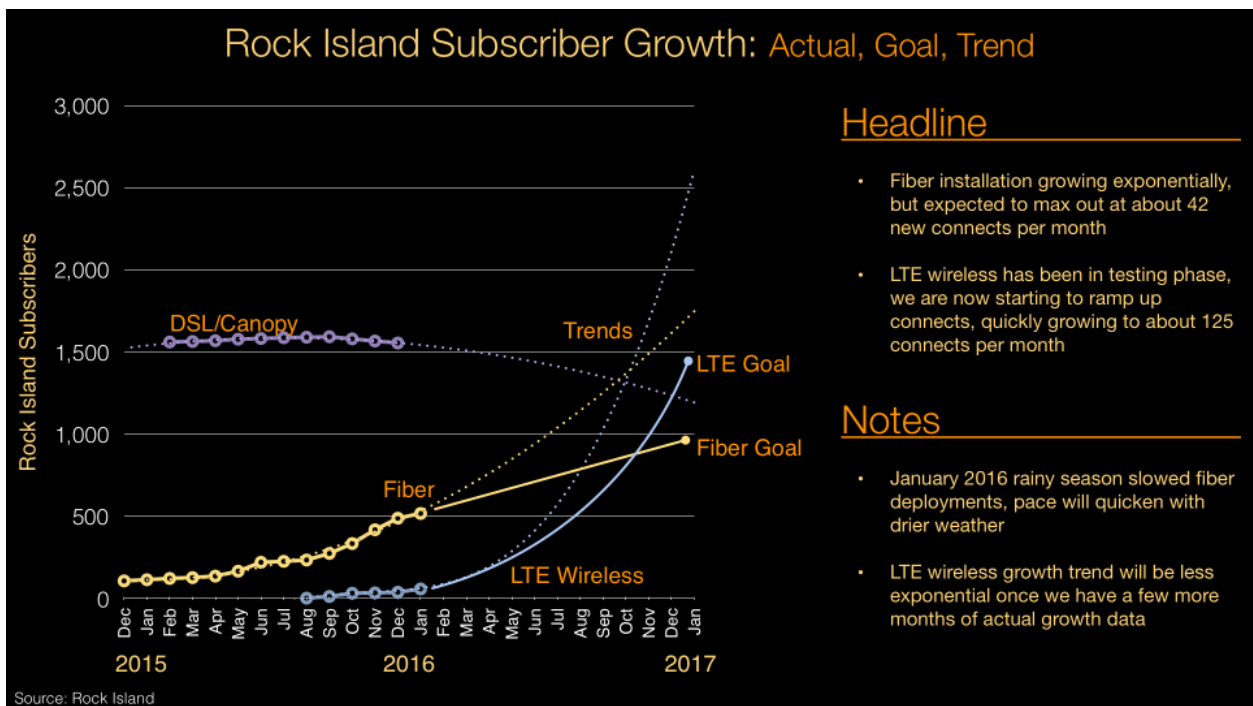
Demand for fiber and LTE wireless is strong, and Rock Island break-even is still projected be around 3,000 subscribers. We expect demand to continue well beyond 3,000 subscribers as CenturyLink DSL continues to degrade and not keep up with exponentially increasing demand for internet speed (see chart below).



8. According to the numbers I see ONLY 11% of the Co-op members said they were interested in Broadband. Why did the board move forward with broadband with ONLY this small percentage? Did the board feel they knew more than the general membership?

OPALCO Answer:

As mentioned above, interest in Rock Island broadband fiber and LTE wireless services is very strong. There is a continually filling pipeline of orders that stretches out many months. The chart below shows the Actual, Goal and Trend data for fiber and LTE wireless subscribers. Now that the T-Mobile partnership is in place, Rock Island expects LTE subscribers to ramp up fast.



Note how Fiber and LTE wireless services are growing faster than DSL is falling. This indicates that these new services are helping fulfill unmet demand for fast reliable internet. This was one of the major objectives of the co-op. County broadband speeds are about 10% of mainland speeds, with many members unable to get satisfactory connects through DSL.

We are not sure what you are referring to about 11% interest. If you are referring to back in 2012 when about 950 members prepaid \$90 as an expression of interest in broadband services from OPALCO, that plan was shelved due to cost concerns, despite the remarkable show of interest. We feel that any business that can get 950 of 11,000 potential members to prepay \$90 for a service that it is thinking about doing, that is a strong expression of interest and confirms the unmet need of fast reliable internet services for homes and businesses. This need is confirmed in rural areas across the US, with many co-ops, the FCC, and others stepping in to help meet demand.

The board listens to members carefully. As you can imagine, with over 11,000 members, they hear lots of views on every topic. On the topic of broadband, support has been strong. This is supported by OPALCO

member surveys – the 2014 satisfaction survey and the 2015 targeted IN survey show strong support.

Perhaps because of the shelving of the old plan, in 2013, after the CenturyLink submarine cable failure, at a standing room only OPALCO board meeting in Friday Harbor, co-op members overwhelming urged OPALCO to “*play an expanded role in providing broadband services in San Juan County.*” The chart below includes extracts from that board meeting’s minutes.

OPALCO Board Meetings: December 19, 2013 meeting minutes

December 19, 2013, CenturyLink's fiber optic cable failure

Gayle Rollins (San Juan); Victoria Compton (San Juan); L. Dwight Lewis Jr. (Lopez); Mike Greene (San Juan); Mark Henderson (San Juan); Richard Ceville (San Juan); Morgan Meadows (Orcas); Steve Ludwig (Lopez); Jim Hooper (San Juan); Jack W. Cory (San Juan); Wally Gudgeall (Orcas); Gray Cope (San Juan); Don Jarrell (San Juan); Stephen Brandli (San Juan); Brad Williamson (San Juan); Marc Forlenza (San Juan); Ellen Roberts (San Juan); Judy Lingerfelt (San Juan); Milene Henley (San Juan); Mark Madsen (San Juan); Sharon Kivisto (San Juan); Lovel Pratt (San Juan); and Steve Wehrly (San Juan).

Due to CenturyLink's fiber optic cable failure that occurred from November 5th through 10th, there was increased member attendance at the Board meeting. The majority of members present expressed their desire for OPALCO to play an expanded role in providing broadband services in San Juan County. Organizations (EDC, County Council, and Realtors Association) were represented as well, thanking OPALCO for their assistance in restoring communications services during the CenturyLink outage and urging the OPALCO Board to "deploy its broadband services throughout the county" and "find ways to work with other providers to provide reliable and up-to-date service to all our residents". Milene Henley presented a letter from the San Juan County Council urging OPALCO to "take a fresh look at deploying your broadband services throughout the County...and find ways to work with other providers to provide reliable and up-to-date service to all our residents."

Only two members, Ludwig and Lewis, expressed their opposition.

The Board discussed the topic at length, which led to the following motion:
Motion made by Hall, seconded by Lett: "Our Island communities are suffering economic damage and safety issues caused directly by inadequate phone and internet infrastructure. Therefore, OPALCO shall accelerate expansion of our local member- owned robust, reliable high-speed data infrastructure to provide internet, phone, and emergency communications services to our members. Deployment will be supported and funded by OPALCO assets, including equity and rates." After a lengthy and thorough discussion, the motion carried unanimously.

December 19, 2013, CenturyLink's fiber optic cable failure

CenturyLink Cable Break

Hildreth reported that CenturyLink requested OPALCO's assistance when their submarine cable failed between Lopez and San Juan Island early on November 5. The first priority was to get the 9-1-1 system back up and was accomplished within 2 days through a bypass created by splicing CenturyLink's central office connection into OPALCO's fiber and microwave repeaters. By November 15, the repair was complete and CenturyLink was rerouted away from our system.

Motion made by Dauciunas, seconded by Hall: "To recognize the hard work, efforts and contributions of OPALCO staff, the Board officially thanks and commends staff and management of OPALCO for their herculean efforts in stepping up to the plate cheerfully and energetically during the CenturyLink outage." The motion carried.

Motion made by Adams, seconded by Dauciunas:
"Rescind the Island Network new connections moratorium and allow staff to commence prudent connections at their discretion." Motion carried.

Then in 2014, after completing business planning, the public again showed up, strongly encouraging the board to proceed. The chart below shows who attended and the text of the Broadband Strategic Directive passed at that board meeting.

OPALCO Board Meetings: November 20, 2014 meeting minutes

November 20, 2014 Island Network Business Plan

There was a large turnout due to interest in the Island Network Business Plan.

Each member was invited to speak. Present and speaking in favor of OPALCO moving forward with broadband for the county were: Randy Gaylord (Orcas), SJC prosecuting attorney; Mike Green (San Juan), Rock Island Technology Solutions; Linda Wilkes (Orcas); Audra Query (Orcas); Wally Gudge (Orcas) asked that the Board be aggressive in their rollout, the demand is proven and real estate has suffered due to the low speeds in the islands; Bernard Jalbert (Orcas); Ron Rosenberg President of the Eagle Lake HOA Board (Orcas) stated that Eagle Lake, with 45 lots are all on board and willing to pay their share of the costs to install fiber having lost home sales in the past few years; Bernard Shanks (Orcas) commended the Board on their excellent vision and asked that they "get on with it"; Mark Madsen (San Juan) Mineral Heights HOA noted that the change in the Broadband direction the past 6 months is astonishing and has a place for OPALCO to start digging; Sheldon Gregory (Orcas) stated that broadband is desperately needed as their home-based business depends on it, the strategy is excellent and he appreciates the progress made; Anne Marie Shanks (Orcas) excited to be part of the pilot project and the growth this year has been phenomenal, the business plan is reasonable and asks that the Board "pass the budget"; Sheila Gaquin (Orcas); Howard Barbour (Orcas) noted that Deer Harbor is poorly served and is glad that OPALCO took up the torch; Todd Silva (Orcas) stated their move from Phoenix to Orcas was borderline dependent on internet speeds and the increased internet capabilities will allow him to work from home; Mike Speece (Orcas) in favor of the broadband plan. Also speaking were Chom Greacen (Lopez) in favor of broadband but concerned about the impact on rates; Steve Ludwig (Lopez) spoke against the proposed rate design and the increased facility charge, hopes that OPALCO will locate the LTE antennae at least 1500 feet from any dwellings, noted that the insurance increase did not include any electro-magnetic radiation exposure and asked that the Board respect the health of its members and once again stated that OPALCO is noncompliant with RCW 24.06; Dwight Lewis (Lopez) noted his concern over the money OPALCO is spending on broadband. Others in attendance were Susan Cole, Kiki Coe, Susan Kink, John Fleischer and Tony Ghazel.

Broadband Strategic Directives

The Board of Directors held an all-day work session Wednesday, October 15 to discuss and develop a business plan for OPALCO'S broadband. Hildreth gave a brief history of broadband in San Juan County, beginning in 2000 when OPALCO installed its first fiber optic cables and later opened it up to schools, government offices and libraries. He then presented an executive summary PowerPoint of the Island Network Business Plan.

Members applauded the presentation.

Motion by Thomerson to

1. Approve the Grid Control and Broadband Directives listed below:
As outlined in the business plan, OPALCO will continue to accelerate expansion of its local member-owned robust, reliable high-speed data infrastructure to provide internet, phone and emergency communications services to its members.
Deployment will be supported and funded by OPALCO assets, including equity, debt and rates.

- A. OPALCO is to isolate its communication infrastructure for the electric system and build it to RUS standards;
 - B. OPALCO's grid control infrastructure is to be built with member expansion capability;
 - C. OPALCO is to bear all costs of grid control infrastructure, including the 700 MHz spectrum. The Board has explicitly elected not to allocate such costs to member internet;
 - D. The main areas for deployment include, but are not limited to, fiber optic backhaul support for ISPs, wireless infrastructure and direct fiber optic connection;
 - E. OPALCO will establish a wholly owned subsidiary and provide capital and operational funding, as necessary, to deliver wholesale and retail internet services to the membership;
 - F. Service arrangements are to be non-exclusive, with OPALCO retaining ownership of the communication infrastructure.
2. Approve funding of a second OPALCO Communications Technician position; and
3. Approve the lending of Board Designated Restricted Funds (~\$1.5M) to Island Network (or the to-be-created wholly owned subsidiary) for startup of operations.
Motion was seconded and carried by voice vote. Members applauded the vote.

At this point, we have contractual commitments, demand is strong, and in our view the smart thing the membership can do is support it if they can, be patient, let it grow and get to breakeven. As the initiative passes beyond breakeven, it will pay dividends back to co-op members in the form of rate relief (see discussion of flat revenue and energy growth above).

9. If Broadband is such a "GREAT" Deal then why does the board need to CO-MINGLE Power/Broadband. It should stand alone and not corrupt our LOW cost /90 % Green Power.

OPALCO Answer:

It doesn't. OPALCO costs and Rock Island costs are kept separate. This separation is critical for legal and financial reasons. Each company is independently audited. OPALCO is additionally audited by the Rural Utility Service, as all projects they finance must be reviewed and approved by them and must be for purposes of providing electricity to the membership. The IRS provides a third layer of

separation since OPALCO is a nonprofit and Rock Island is a wholly owned for-profit subsidiary.

Regarding your assertion that broadband is a “great deal” we would disagree. Providing fast reliable broadband in rocky rural area like ours is expensive. And with our county’s small rural population, the installation costs are not spread across very many people as they would be in an urban area. If it was easy or highly profitable, you would have seen someone else do it. This is where co-ops excel. As in 1937 when OPALCO began building the electric grid, it takes time and is expensive. Not everyone could afford it right away. But as the grid grew, it reached more people, and now most everyone has a connection. The same will happen for broadband.

OPALCO began establishing its communication network in 2001 with the laying of our first fiber optic submarine cable. In addition to providing in-house telecom and internet service, in 2004 we expanded the network to the county government, libraries, schools, medical facilities, and internet service providers.

After the CenturyLink outage in 2013, at the behest of many members (individuals, business, and local government), OPALCO decided to open its network up to all members. In 2015, we acquired Rock Island to further accelerate rollout to meet the unmet demand for fast reliable internet.

In parallel, we are using our extensive fiber optic network to improve county first responder communications and cellular service. There are currently 8 significant communication “dead zones” in the county. OPALCO is working with first responders to get those filled, with testing on South Lopez underway.

In addition, cellular service has been spotty in the county. About 75% of emergency service calls from mobile phones are problematic. Partnering with T-Mobile, we expect to see quality cellular coverage through most of the county by year end while, on the same equipment,

Rock Island will deliver state of the art LTE wireless data service to those who are unable to take advantage of the growing fiber optic network.

All the pieces are coming together. Demand for fiber and wireless data services is very strong and growing rapidly. The network is growing like a tree - trunk to branch to twig. It will take time. In a few years we estimate that most homes and business in the county will have access to high speed fiber or LTE wireless services. We are working on ways for all members to benefit, regardless of income.

While energy growth is flat. Internet growth is growing exponentially. The combination of energy and internet diversifies co-op finances while helping meet critical communication, education and economic needs of the county.

San Juan County has the lowest working wages in the state. A vibrant communications network fosters economic wellbeing. A middle class growing with true living wages as county residents access telecommuting jobs.

It is an important deal only a co-op can make succeed. For more on this topic, see financial expert and co-op member Joe Cohen talk about the opportunity: <https://www.youtube.com/watch?v=5NpSDHq-PXE>

10. Is Opelco management having its employees do work on broadband and having them charge the work to the power end of the business?

OPALCO Answer:

No. See your question 9 above. If an OPALCO project also benefits Rock Island, cost are allocated to Rock Island proportionately, not OPALCO.

Remember OPALCO is a nonprofit. Rock Island is for profit. The IRS requires separation, as does the Rural Utility Service.

11. Would the Board do a ONE Page easy to publish to the membership a quarterly simple profit and loss statement?

OPALCO Answer:

There is one, in the quarterly reports. For example, see the P&L on page 16 of 2015 OPALCO Q3 report.

Here's OPALCO's Q3: https://www.opalco.com/wp-content/uploads/2015/11/2015-3rd-Quarter-Financial-Packet_updated-11-18-15.pdf

Here's Rock Islands: <https://www.opalco.com/wp-content/uploads/2015/12/2015-Q2-Financial-Report-RIC.pdf>

12. If the costs of implementing Broadband continue to increase over the amount budgeted is the board willing to increase the per month cost to each broadband customer? Will the board increase the now \$1,500.00 hook up charge?

OPALCO Answer:

We are not aware of a "\$1,500 hook up charge." Rock Island subscribers to fiber internet service pay "cost of construction" for getting fiber to their home/business. There is a \$1,500 credit available that Rock Island customers can use to reduce construction costs. When costs exceed the credit, the subscriber pays. This is available to the first 3,000 subscribers.

Regarding Rock Island increasing monthly charges, they are a start up, competing with other service providers and would want to keep all options on the table. Members benefit by having more choices, in a competitive environment. How they price, incentivize, and promote their services will be as most any other business would. At the current price point, demand is strong. The \$1,500 construction credit is used to accelerate early demand to get to the 3,000 subscriber level, at

which point break-even is achieved – an important milestone in any business.

13. Will the board commit NOT to continue to raise the rates/Facility/and other yet to be determined charges to cover broadband?

OPALCO Answer:

See answers to your questions 9 and 10 above. Electric business and Rock Island are separate businesses. Rock Island customers pay for Rock Island services, and the monthly subscriber rates of those communication services will be adjusted to ensure Rock Island costs are covered.

Electric rates are separate.

This CO-OP deserves to have a board that is committed not to run this GREAT CO-OP into Bankruptcy due to a board that is driven to serve 11% of its members and not the other 89%!

OPALCO Answer:

The co-op's finances are in good shape, with a TIER over 2.51 and solid debt to equity ratio. For more on that, see answer to your question #1 above. In addition to the discussions above about debt, expense and revenue, check out the 2015 Year End Financial Report, released in March 2016.

The co-op board and management are deeply committed to a strong vibrant economically sustainable community. All members of our community benefit from excellent energy and communication infrastructure, today, and in the future.

We endeavor to provide great energy and communication services to our members now and ever. The co-op is in good financial shape. The board and management take their fiduciary responsibilities seriously.

The co-op works on behalf of all members. Each member has particular things they care about, and with over 11,400 members we welcome and expect a diversity of views. Co-op member interest is strong for reliable energy and internet services offered by OPALCO and its subsidiary Rock Island.

As with electricity in the last century, the demand for fast reliable internet is growing exponentially. Member internet usage is rapidly outrunning the limits of DSL and other older technologies. Within a few years, most homes and businesses in the county will have fiber or LTE wireless services. This supports a thriving sustainable local economy rising above the limitations of a low-wage tourist economy.

As always, we encourage you and all members to attend board meetings, talk with your board members, attend energy and internet events, and share your thoughts. And if you have questions, feel free to call or email the Member Services team at OPALCO.

Thanks for your questions. From all the co-op staff and board, we wish you the best.