

## OPALCO - FREQUENTLY ASKED QUESTIONS

### RATES

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#### Why are rates going up?

1. Rates are going up because a) costs continue to rise and b) we are preparing for system upgrades and a very expensive submarine cable replacement project.
2. Any way you slice things, we have an expensive and complex system to maintain. We serve 15,000 meters, 20 islands, over 1,300 miles of power line and 30 miles of submarine cable, 11 substations and 3 crew facilities.
3. For the last 5 years, our costs have gone up by 6% while our revenue has only gone up by 3%.
4. OPALCO revisits rates each year during the budget process – for the coming year with a four-year look-ahead forecast.
5. Interesting to note: our overall cost of electricity for an average residential member, adjusted for inflation, is less than it was in 1992.

#### Why don't you cut your expenses?

1. Actually we did.
  - Delayed hiring
  - Delayed some capital projects
  - Cancelled an office remodel
  - Shifted to a high deductible medical plan
  - Postposed our annual employee appreciation event
  - And scaled back annual meeting expenses
2. That only got us part way there.

#### Isn't there more you can do to cut your expenses?

1. Yes, but it gets pretty painful at this point; it means layoffs.
2. OPALCO doesn't have a great deal of discretionary expenses to cut.
3. Taking service levels, the cost of power and fixed costs into consideration, maybe 3% can be construed as discretionary. The next level of reductions would require us to cut staff and lower service levels, and our leadership is not in support of that.

*"Let me be clear, I am not in support of laying off anyone in this organization," said Foster Hildreth, General Manager. "We have a tremendous amount of work to do and it requires all hands on deck."*

#### Is our new rate structure fair?

1. Yes. Our leadership group studied rate structure options for eight months before approving this approach. And, we are still at the beginning stages of a longer term shift to reduce revenue volatility, testing fairness at each step of the way.
2. Please don't confuse the rate *increase* – which is built to meet our budget needs – with the rate *structure* - which answers the question who pays and how much.
3. You may or may not like the rate *increase*, but the *structure* fairly distributes the costs of running the co-op for each rate class: residential, commercial, pump, Time of Use.

4. This is a long-term and evolutionary process driven by fairness to members (cost of service studies), financial requirements and Board direction and policy.
5. The bottom line is that rates are going up. The question is who will pay and how much.

**Are you considering member feedback on other ways to approach rates?**

1. Yes. We listened to our members and incorporated new criteria for seasonal members, demand charges and rate blocks, as suggested. The Board will continue to listen and make balanced decisions.
2. No matter what approach we use to structure our rates, some will not be pleased; there is no such thing as the perfect rate for all members. Our goal is to make sure we meet our financial obligations, fairly allocate the costs of electric service, and insure all rate structures benefit the majority of our members.
3. The current rate structure benefits the majority of our members.

**The current rates are hard on members on fixed and low incomes. What are you going to do about it?**

1. First let's correct some misinformation: low income members are not necessarily low energy users. As a rule, their usage is slightly higher, often due to less energy efficient homes. It's true that our lowest energy users are feeling the rate increase because it's in the facilities charge, but that does not translate directly to low income.
2. Project PAL helps members in need pay winter heating bills. Members round up their utility bills to the nearest dollar or make monthly or one-time donations. Sadly, only about a third of our membership supports the PAL program.
3. Considering the 2015 rate increase, OPALCO's Board approved an additional \$25k be transferred to our PAL program this year.
4. We fund a weatherization program for low-income members, and last year matched assistance funding from other regional organizations to the tune of about \$50K.
5. A key cooperative principle is "concern for community;" it's in our DNA.

**That doesn't sound like enough, what else can OPALCO do?**

1. We are conducting a needs assessment in 2015 and I am committed to developing a proposal to the board for some kind of rate relief program for those meeting the federal poverty guidelines.
2. Utility bills are only one piece of this important problem. There are many financial challenges facing our most vulnerable community members and utility bills are one of the many (others include housing, food, transportation, job, medical, etc.). We encourage the County and other local resources step up to their part as well.

**I don't get it. You say conserve power and then say we aren't selling enough power to cover our costs?**

1. It's a Catch-22 that whole utility industry is experiencing right now – but it's a short-term view. We need to cover our costs – and then conservation makes sense.
2. Conservation and Energy Efficiency are still very important resources and help us manage our peak energy usage and future energy load.
3. Energy efficiency and conservation are cheaper than buying power – and much cheaper than building a new power plant.

## OPALCO'S GRID CONTROL NETWORK

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### I hear that we are spending \$7.5M on grid control communications. Why?

For some very good reasons:

1. Our nation's electrical grid infrastructure is largely outdated and increasingly vulnerable to failure and attack.
2. Opalco's leadership had the foresight to begin installing fiber in 2000 – but we have much to do to prepare for modern grid technologies.
3. We are currently in a \$7.5M grid control network expansion project which will span 2013-2017 for projects to:
  - Monitor and control our existing automated electric distribution system;
  - Improve communication in the field for our line crews and system access;
  - Prepare the cooperative for the thousands of electronic devices that are coming online in our members' homes and businesses – including inverters for solar grid-ties, EVs and smart devices such as Nest thermostats.
1. Of those anticipated grid uses, the increased penetration of solar grid-ties is mission critical. The DOE said: ***"In the future, the distribution grid will need to be reinvented to interact with, and in some cases control, distributed generation and loads."*** We are already moving in that direction.

### I don't want or need Internet myself. Why do I have to pay for the grid expansion?

1. Electric ratepayers are not paying for *Internet connections for end users*. However, the cost of our 30-year loans for infrastructure expansion are paid back through rates.
2. This investment in our grid makes sense for the whole cooperative, whether or not you use the Internet. Expansion of the grid gives us:
  - further reach for safely monitoring and controlling our electrical distribution system and resolving outages quickly,
  - Improved communication for our linemen in the field – and other first responders
  - Advancing our grid in preparation for the coming tide of thousands of smart devices and connections that will be standard in member homes and businesses – including more solar interconnections.
3. While we are not paying for members' Internet connections, we are all paying into a short-term loan to support the start-up capital and costs of Rock Island Communication: \$3/mo for 24 months in the form of a loan that will be repaid to OPALCO.

## INTERNET / ROCK ISLAND COMMUNICATIONS (RIC)

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### Why is OPALCO getting into the Internet business?

1. First of all, OPALCO has been providing Internet services since 2004 to public safety, county offices, schools and libraries. The event that caused the Board to accelerate everything was in November 2013, when the CenturyLink fiber-optic submarine cable failed and brought island communications to its knees
2. And, our current approach just makes good business sense. We have a giant head start with our fiber network, our history as an ISP and our cooperative model. We **can** do this and do it well.

### **How does this fit into our Co-op mission?**

1. The core of our mission since 1937 has been to help improve the quality of life in the islands. It's the right thing to do. Broadband delivers essential community good such as economic development, access to education, jobs and health care, as well as improved safety communications county-wide.
2. Just like when OPALCO brought electricity to San Juan County, we have been the only organization willing to make the significant local investment it takes to get the job done right in the islands.

### **Is OPALCO hiding Internet connection expenses in grid control projects?**

1. No. Member Internet connections pay all the costs to connect their homes and businesses to our grid control network.
2. There is a clear line of demarcation where our grid serves the electrical system and where Rock Island Communications makes a connection to an end user. We account for those costs separately – are regulated by our lender, RUS and the IRS to segregate taxable vs non-taxable expense.
3. Members are paying for the start-up loan (\$3/mo for 24 months) until RIC can make its own payments. This member charge which is included in the 2015-16 rates. That is a loan that will be paid back to the Co-op.
4. Please see the October 2014 Board Strategic Objectives ([www.OPALCO.com](http://www.OPALCO.com) / Find Documents) for specific details.

### **Why did you acquire RIC?**

1. Because it makes good business sense. It's the local solution that pays for itself in 6 years and then begins to return a revenue stream to the Co-op.
2. With 2,200 existing customers, a talented staff already in place, no debt and a positive cash flow, the profitability of our Internet entity is accelerated and we can more quickly meet the needs of our members.
3. To provide essential community good such as economic development, access to education, jobs and health care as well as improved safety communications county-wide.
4. Our broadband survey (County Fair 2014) clearly demonstrated that Rock Island had already earned the trust and loyalty of our members.
5. Our membership demands improved Internet services – and wants OPALCO to make its member-owned infrastructure available for this purpose.

### **Why didn't you call for a vote of the membership to buy RIC?**

1. Members elect the Board to make exactly these kinds of decisions.
2. This was a clear business decision, especially after the Board directed staff to establish a wholly-owned internet subsidiary in October 2014. RIC made implementation much faster and more efficient with their already established staff and technical resources – and positive cash flow.
3. Business acquisitions are done under Non-Disclosure Agreements – and for good reasons:
  - Competition
  - Fair valuation of the business
  - Vendor relationships

### **How much did we pay for RIC?**

1. A net of \$468K to buy a qualified staff, established customer base, and positive cash flow.
2. The purchase price came with a revenue stream that pays for the \$468k loan over 6 years. To repeat, RIC's existing cash flow pays for its own purchase price.
3. Also, Rock Island profits beginning 2021 give OPALCO a new revenue stream to offset rising costs.

### **Why isn't RIC a co-op?**

RIC must be competitive with CenturyLink and others – especially during start up. It needs rate flexibility and must not be restricted to cost-of-service as is the co-op model.

### **How soon will RIC connect everyone?**

1. We may never serve every island home, because this is a pay-as-you-go system.
2. Our immediate goal is to get to financial break-even as fast as we can (25% of our membership, or 2,000-3,000 new subscribers).
3. Once it pays for itself, it can grow based on member demand and connect more people.

### **How many people are connected now?**

1. RIC has about 146 fiber subscribers – and are expanding as fast as they can go.
2. As of April 2015, there are **almost 300 connections under construction**. The dirt is flying on the first five projects: Eagle Lake, Spring Point-Harborview, Cattle Point-Cape San Juan, Mineral Point area and Alder Cottages: that's 9 neighborhood associations.
3. There are currently more than 500 subscribers in process and more than 2,000 members who have expressed interest in connecting.

### **Why is it taking so long?**

1. Our efforts underway were delayed to complete the business of purchasing RIC and to launch the start-up and transition efforts required to join two businesses.
2. This is a real construction effort, not just switching services. The construction method developed during this period will expedite connections going forward.
3. If you are waiting for a connection, thanks for your patience. It's worth waiting for.

### **Why are those five projects first?**

1. Most of them are in hard-to-serve areas where we have our own challenges for electrical system monitoring and safety and field communications.
2. Those 5 areas include 9 neighborhood associations - in close proximity to each other and self-organized - in some cases already assessing themselves to pay for the connection to the area.
3. In the case of Eagle Lake - they had conduit already installed in the neighborhood: this made it easy for us get many members connected quickly.

## **POWER SUPPLY**

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### **Why do submarine cables cost so much?**

1. All material costs have gone up. The submarine cable we installed in 1977 for \$3M would cost \$10M today, adjusted for inflation.

2. New regulations that require us to bore underground to avoid sensitive archeological areas and eelgrass habitats. (\$1M). We are also now required to remove our old submarine cable at an estimated cost of \$3.3M.
3. We are more than willing to comply with new regulations and have a huge stake in protecting our beautiful and delicate environment. It just comes at a cost.

**Instead of spending \$15M on a submarine cable, can't we spend the money to put a solar panel of every roof?**

1. Solar is not a reliable source in this region for four months of each year – and those four months are when we have our greatest demand for power. Our cloud cover dramatically reduces our ability to “go off the grid.”
2. The behavior changes necessary for members to shift to solar are no small matter: limiting hours of electronics and appliance usage, adjusting to a big reduction in energy available (e.g. going from 1,000 kWh/day to 200) and shifting habits from cooking methods to when and how often you do laundry or take hot showers **or** a costly generator and associated fuel will be required.
3. Even if every island rooftop had a solar panel, we'd get only about 30% of the energy needed for our winter load and it would cost about \$100M to install (about \$22k per system).
4. We will always depend on our submarine cable connection to the mainland grid (certainly in our lifetimes). As new technologies advance and the cost of renewables drop, the balance may shift – but the grid will always be necessary for 24/7 firm and reliable power and storage for renewables (intermittent power generation).
5. The smartest thing we do as a co-op is to continually enhance our communication infrastructure to meet current needs and prepare for a future that we can see coming when thousands of smart devices and more and more local distributed power is connected to and controlled by our grid.

**Why do we depend so heavily on hydropower?**

1. OPALCO gets 87% of its power from hydroelectric dams. It's the lowest cost, cleanest energy available in the world.
2. And hydropower is readily available to us as a firm source 24/7.
3. In the Northwest, our highest energy use comes in the cold dark of winter. Hydro is a key firm power source to meet our demand.

**Aren't dams harmful to our fish?**

1. BPA is doing a good job with fish and wildlife habitat programs and we are seeing record fish runs (see annual report). Already 20-30% of our wholesale power rate goes to support fish and wildlife habitat projects.
2. River systems are only a piece of the fish story, though we don't discount their importance in the hydropower world.
3. Please be aware that some may support dam removal. OPALCO does not and encourages our membership to know the facts before formulating an opinion. Learn more from the Northwest River Partners.