



BOARD OF DIRECTORS REGULAR MEETING

Friday, September 16, 2016 8:45 a.m.

OPALCO Conference Room, 1034 Guard Street, Friday Harbor

TRAVEL



Via Island

378-2376 / 378-8129 (cell)

To:

Leave Eastsound 8:00 a.m.

Lopez 8:15 a.m.

Arrive FH 8:30 a.m.

Return:

Leave FH 2:00 p.m.

Arrive Eastsound 2:15 p.m.

Lopez 2:30 p.m.

Via Ferry:

a.m.

To: Leave Orcas 6:55 a.m.

Shaw 7:00 a.m.

Lopez 7:35 a.m.

Arrive FH 8:15

Return:

Leave FH 2:15 p.m.

Arrive Orcas 3:05 p.m.

Shaw 3:20 p.m.

Lopez 3:40 p.m.

Orcas Power & Light Cooperative
Board of Directors
Regular Board Meeting
Friday Harbor OPALCO Office
376-3500
September 16, 2016 8:45 a.m.

PAGES

WELCOME GUESTS/MEMBERS

- Member Comment Period
- PNGC Beth Looney
- Election Review Committee: Members Wally Gudgell, Terry O'Sullivan, Doug Marshall, Ed Sutton, Gabriel Jacobs, Rob Thesman, Stephen Shubert

ACTION ITEMS

- Consent Agenda
 - Approval of August 18 Minutes
 - New Members
 - Capital Credits
 - RUS 219s
 - CFC Voting Delegate
 - OPALCO Position on I-732
 - Moss Adams 2016 Engagement Letters
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DISCUSSION ITEMS

- Member Review Committee on Elections Presentation
 - PNGC Discussion and Presentation (Executive Session)
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ADJOURNMENT

Executive Session: Moss Adams 2016 Engagement Letters, PNGC, legal and personnel

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

Thursday, August 18, 2016

President Vince Dauciunas called the meeting to order at 8:15 am at Woodmen Hall on Lopez Island. Board Members present were Winnie Adams, Randy Cornelius, Jim Lett, Mark Madsen, Brian Silverstein and Jerry Whitfield. Staff present included General Manager Foster Hildreth; Manager of Engineering and Operations Russell Guerry; Manager of Finance and Member Services Nancy Loomis, Head Accountant Travis Neal, and Executive Assistant Bev Madan (serving as recording secretary). Rock Island Communications staff present were Dan Burke, Chad Bailey and Chris Schmidt. Also present was consultant Jay Kimball.

Member/Guests

Lopez members Rob Thesman, Dwight Lewis and Bruce Richardson were present. Each member/guest was offered an opportunity to address the board. Lewis shared his concerns about OPALCO and Rock Island Communications.

June 16, 2016 Meeting Minutes

- **Motion** was made to accept the June 16, 2016 minutes as presented. Motion was seconded and carried by voice vote.

New Members

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

DISTRICT 1

San Juan

Ables, Jake
Bell, Richard & Elizabeth
Bremer, Tad
Burke, Jamen
Connery, George
CRB, LLC
Davenport, Richard
Davis, Robert
Drennan, Shelley
Freborg, Ronald
Gettinger, Hugo C
Gladstein, Kristina & Michael
Hanson, Brad
Harris, Shannon
Hickox, Wesley
Jared, Clyde & Marilyn
Kretchmer, John
Larson, Timothy
Li, Chin Chong
Mann, Gary & Nanney, Renae
Marshall, Grant & Dietz, Lynn
McKinney, Jasmine
McVeigh, Karen & Cynthia
Musburger, Jeffrey
Nyden, Bruce B
Orozco Tinoco, Rosa
Payne, David
Perez, Jim & Jony
Pignatiello, Michael & Lisa
Ryan, April
Salvino, Mark & Trenk-Salvino, Jennifer
Stehn, Susan
Tucker, Dennis & Angela
Waugh, Jeff & Carol
Zickefoose, Casandra
Zimney, Gudrun & Hassell, Carl

Zueger, Teresa

DISTRICT 2

Orcas

Allred, Alexander & Cadden, Kayla
Bigbee, Marie
Blaine, Marjorie
Brown, Leslie
Brucrew Unlimited LLC
Coffey, Timothy
Connell, Michael
Dekker, Sabina & Currie, Chris
Diaz, Juan & Lindgren, Staci
Garmeson, Shannon
Hamilton, Will
Kolb, Kristin
Matthews, Carol
Miner, Edward P
Montgomery, Barbara
Morley Drive HOA
Nance, April
Nelson, Heather & Bertelsen, Soren
Norian, Roger & Ann Catherine
Olliff, Don
Petros, Hamza
Robertson, Michael & Barbia
Rosselison, Danielle
Sahlsteen, Eric & Jilayne
Schulz, Dominik
Sheppard, Noah
Stankovic, Zoran
Taguchi, Betsy
Taylor, Kassandra & Bruland, Brooke
Turnbull, Rachele
Watson, Matthew

DISTRICT 3
Center
Riedel, Jenee

Paynter, Jonathan & James, Marisa
Taylor, Kimberly

Lopez
Christensen, Peter E.
Garcia, Ramon
Grummel, Roger
Milewski, Chris & Jackie

DISTRICT 4
Shaw
Kamrath, Kai-Joachim & Carpenter,
Christian
Lord, James

Capital Credits

- **Motion** was made to approve payment of \$6,315.00 in capital credits to the estates of deceased members and the corporation listed below. Motion was seconded and carried by voice vote.

Robert G. Bourgaize	\$1,219.64
Douglas E. Finkelnburg.....	\$1,087.72
Ann L. Hagen.....	\$314.66
Steven C. Young.....	\$662.80
Deer Harbor Marina WI LLC	\$3,030.18

RUS 219s

- **Motion** was made to approve submission of RUS 219s in the amount of \$362,767.89 representing projects completed in May and June 2016 from the Construction Work Plan. Motion was seconded and carried by voice vote.

Member Information Request Appeal to Board

Shaw member, Alex MacLeod, filed an appeal of the denial of a Member Information Request. The request and denial were thoroughly discussed.

- **Motion** was made to support the GM's decision to deny the information request. The motion was seconded and carried by voice vote.

Q2 Financial Report

Total revenue was 1% higher than budgeted for Q2 but was more than offset by the related increase in purchased power. Purchased power was driven by large demand charges coupled with higher BPA power rates during 2016. Margin increased by \$153,000.

Rock Island Communications Q2 financials were also reviewed. Progress continues in placing LTE poles and with improved site locations. Numbers are expected to increase as more active sites are in place.

Both OPALCO and Rock Island Communications finances are well within OPALCO's loan covenant requirements.

Safety Program Review

Jeff Myers of Columbia REA presented a review of the progress OPALCO's safety program has made over the past five years. Staff continues to make progress and has a better understanding of the need for safety regulations. A six member Safety Committee, made up of leaders within the crews, is very thorough.

Myers reported that Rock Island Communications is developing their own safety program under his guidance as well. A safety manual is being created.

RUS Form 300

RUS General Field Representative (GFR) Rodney Peach performed an Operations and Maintenance Review during a July visit to OPALCO. The subsequent report, filed through RUS Form 300 indicated ratings of 3 "*Satisfactory—No Additional Action Required at this Time*" in its entirety. Peach's general comment on the report stated "improvements in all areas and future projects to upgrade the distribution system and substations along with the installation of fiber throughout the system will enhance the utility's overall capabilities to provide safe, reliable, and reasonably affordable electricity." After discussion, the Board commended staff for the high marks.

Energy Assistance Program

The Energy Assistance Program was instituted with the January 2016 billing as a line item on members' bills. To date, collections have exceeded distributions to eligible

members. Staff provided the Board with several options for the program going forward and will re-evaluate the program during the 2017 budget process.

- **Motion** in support of doubling of payouts to participants, was made and seconded. Motion carried by voice vote.

Reports

- Safety: Staff reported on the safety report and discussed one non-injury incident that occurred during the month.
- General Manager: PNGC CEO Beth Looney will attend the OPALCO Board meeting in September to discuss issues facing PNGC and OPALCO as a PNGC member. The discussion will focus on future energy resources and topics contained in our IRP. Directors should send any pre-questions for Looney to Dauciunas in advance of the September meeting.
The status of the CenturyLink cable overriding the OPALCO cable was discussed, noting that CenturyLink needs to act quickly if they are to replace their fiber optic and remove their old fiber cable(s) prior to our submarine cable installation in 2017. Communication with CenturyLink is ongoing, it was noted that OPALCO began communications with CenturyLink on this matter in 2014.

Rural Energy Savings Program Loan (RESP) letter of intent has been filed with RUS as step one to begin the loan process. This loan would create a revolving/relending program to implement energy efficiency/renewable measures to qualified consumers within San Juan County.

Member generators have exceeded the Washington State tax credit cap. The \$100,000 allotment will be prorated to the member generators. M.O.R.E. recipients will also receive additional incentives of more than \$50,000.

A committee consisting of eight OPALCO members is reviewing the election process. The results of their findings and their recommendations will be presented to the Board of Directors at the September meeting.

Due to aging cast iron pipes at the Eastsound office, the septic system will need to be replaced. Staff reported the projected cost of the project.

The LTE network has proven immensely beneficial for crew communications.

Adjournment

Regular meeting adjourned to Executive Session at 12:10 p.m. The executive session ended at 1:45 p.m.

Vince Dauciunas, President

Winnie Adams, Secretary-Treasurer

NEW MEMBERS
August 2016

DISTRICT 1

Brown

1. Milne, Philip & Gretchen

Henry

2. Nelson Bay RE LLC

Pearl

3. Dock to Dock LLC

San Juan

4. Beachem, Rene
5. Bristow, Erin
6. Day, Joy & Johnson, Bruce
7. Estrada, Shelby
8. Fitzgerald, Michael
9. HMW Intrigue LLC
10. Huffman-Hall, Tammy E
11. Jennings, Angela
12. Jensen Family Charitable Trust
13. Kelly, Ashley
14. Kinnaman Hollis, Diane C
15. Lindsey, Derik & Penwell, Maria
16. Lund, Worm
17. McLochlin, Shannon
18. Michael, Samantha & White, Ryan
19. October Farms LLC
20. Patten, Jill
21. Prather, Dean
22. Ringhofer, Bradley & Yang, Mindy
23. Savlen, Kevin
24. Schatzman, Randall & Sheldon, Julie
25. Suttell, William
26. Worley, Ricki

DISTRICT 2

Orcas

27. Alperine, Elisabeth
28. Clearwater, Danielle
29. Cockrum, Larry & Dixie
30. Coffey, Ed
31. Foundant Technologies Inc
32. Fushimi, Randa & Tomohiro
33. Gamez, Melissa & Triplett, Robert
34. Hall, Taryn
35. Horwitz, Sanford & Janet
36. Islas Carreon, Sheila

37. King, Stephanie
38. Miller, Sarah
39. Most, James & Palmer, Sara
40. Nelson, Jearl & Fisher, Martha
41. Pacasum, John & Jenkins, Lisa
42. Parsons, Kimberly
43. Rodgers, William
44. Ryan, McKenna
45. Shu, Vincent
46. Stone, Andrew

DISTRICT 3

Decatur

47. Coghlan, Will
48. Vetrone-Timothy, Leeanne

Lopez

49. Allen, Mark & Andrea
50. Barben, Jack
51. Barzegar, Kelli & Ali
52. Beidler, Paul & Sue
53. Carrion, Heather & Cesar
54. Daniels, Turner & Rosemary
55. Giles, Kathi
56. Killen-Gall, Annemarie & Gall, Barry
57. Krumme, Katherine
58. Olson, Janice
59. Perry, Meredith
60. Platter, John & Leah
61. Van Doren, Ruth & Harold

DISTRICT 4

Shaw

62. Brooks, Scott & Brasse, Marijke

MEMORANDUM

September 9, 2016

TO: Board of Directors
FROM: Foster Hildreth, General Manager
RE: Capital Credits

Staff requests a motion to approve payment of capital credits to the estates of the following deceased members and/or to organizations no longer in business:

Keith Grinstein	\$613.63
Jeffrey C. Hill	\$149.87
C F Holmes.....	\$1,762.44
Total.....	\$2,525.94

MEMORANDUM

September 9, 2016

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

Projects completed from the Construction Work Plan:

- Inventory #201607\$74,792.78 Apply to AM8
System improvements; URD replacements;
- Inventory #AM1607\$64,516.01 Apply to AM8
Overhead conversions;
- Inventory #AN1607\$53,513.69 Apply to AN8
Grid Control Backbone;

Staff requests a motion from the Board to approve submittal of RUS Form 219s totaling \$192,822.48.

08/23/2016 1:28:26 pm

Page: 8

RUS Form 219 Inventory Of Work Orders
Period: JUL 2016 **System Designation: WA AH O9**

Inventory : AM1607

Budget		Amount
Loan	Project	
1	1600	64,516.01
Total:		64,516.01

ENVIRONMENTAL CERTIFICATION

- 1 WE CERTIFY THAT CONSTRUCTION REPORTED ON THE LISTED WORK ORDERS (EXCEPT CERTIFICATION "2" BELOW), IS A CATEGORICAL EXCLUSION OF A TYPE DESCRIBED IN 7 CFR 1794.31 (b) WHICH NORMALLY DOES NOT REQUIRE PREPARATION OF A BORROWER'S ENVIRONMENTAL REPORT.
- 2 WE CERTIFY THAT CONSTRUCTION REPORTED ON WORK ORDERS _____, IS A CATEGORICAL EXCLUSION OF A TYPE THAT NORMALLY REQUIRES A BORROWER'S ENVIRONMENTAL REPORT WHICH IS ATTACHED.

SIGNATURE (MANAGER)

DATE

BORROWER CERTIFICATION

WE CERTIFY THAT THE COSTS OF CONSTRUCTION SHOWN ARE THE ACTUAL COSTS AND ARE REFLECTED IN THE GENERAL ACCOUNTING RECORDS. WE FURTHER CERTIFY THAT FUNDS REPRESENTED BY ADVANCES REQUESTED HAVE BEEN EXPENDED IN ACCORDANCE WITH THE PURPOSES ON THE LOAN, THE PROVISIONS OF THE LOAN CONTRACT AND MORTGAGE, RUS BULLETINS, AND THE CODE OF FEDERAL REGULATIONS RELATIVE TO THE ADVANCE OF FUNDS FOR WORK ORDER PURPOSES. WE CERTIFY THAT NO FUNDS ARE BEING REQUESTED FOR REIMBURSEMENT OF CONSTRUCTION WORK IN A CBRA AREA.

SIGNATURE (MANAGER)

DATE

SIGNATURE (BOARD APPROVAL)

DATE

ENGINEERING CERTIFICATION

I HEREBY CERTIFY THAT SUFFICIENT INSPECTION HAS BEEN MADE OF THE CONSTRUCTION REPORTED BY THIS INVENTORY TO GIVE ME REASONABLE ASSURANCE THAT THE CONSTRUCTION COMPLIES WITH APPLICABLE SPECIFICATIONS AND STANDARDS AND MEETS APPROPRIATE CODE REQUIREMENTS AS TO STRENGTH AND SAFETY. THIS CERTIFICATION IS IN ACCORDANCE WITH ACCEPTABLE ENGINEERING PRACTICE.

Russell H. Gwerry
INSPECTION PERFORMED BY

Orcas Power + Light Cooperative
FIRM

52424
LICENSE NUMBER

9/8/2016
DATE

[Signature]
SIGNATURE OF LICENSED ENGINEER



08/23/2016 1:28:26 pm

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RUS Form 219 Inventory Of Work Orders
Period: JUL 2016 System Designation: WA AH O9

Inventory : AN1607

Table with columns: Budget, Loan, Project, Amount. Row 1: 1, 706 - 3, 53,513.69. Total: 53,513.69

BORROWER CERTIFICATION

WE CERTIFY THAT THE COSTS OF CONSTRUCTION SHOWN ARE THE ACTUAL COSTS AND ARE REFLECTED IN THE GENERAL ACCOUNTING RECORDS. WE FURTHER CERTIFY THAT FUNDS REPRESENTED BY ADVANCES REQUESTED HAVE BEEN EXPENDED IN ACCORDANCE WITH THE PURPOSES ON THE LOAN...

SIGNATURE (MANAGER)

DATE

SIGNATURE (BOARD APPROVAL)

DATE

ENGINEERING CERTIFICATION

I HEREBY CERTIFY THAT SUFFICIENT INSPECTION HAS BEEN MADE OF THE CONSTRUCTION REPORTED BY THIS INVENTORY TO GIVE ME REASONABLE ASSURANCE THAT THE CONSTRUCTION COMPLIES WITH APPLICABLE SPECIFICATIONS AND STANDARDS AND MEETS APPROPRIATE CODE REQUIREMENTS AS TO STRENGTH AND SAFETY.

Russell H. Guerry

INSPECTION PERFORMED BY

Orcas Power & Light Cooperative

FIRM

52424

LICENSE NUMBER

8/8/2016

DATE

[Signature]

SIGNATURE OF LICENSED ENGINEER



08/23/2016 1:28:26 pm

RUS Form 219 Inventory Of Work Orders
Period: JUL 2016 **System Designation: WA AH O9**

Page: 4

Inventory: AN1607

Project	Loan	Year	Work Order Construction (1) Retirement (2)	Bdgt (3)	Gross Funds Required		Deductions		Loan Funds Subject To Advance By RUS (9)	
					Cost Of Construction: New Constr Or Replacements (4)	Cost Of Removal: New Constr Or Replacements (5)	Salvage Relating To New Construction Or Replacements (6)	Retirements Without Replacements (7)		Contrib In Aid Of Constr and Previous Advances (8)
706 - 3		2014	1842	1	12,695.89	0.00	0.00	0.00	0.00	12,113.24
								AFUDC: 582.65		
706 - 3		2014	1962	1	42,982.53	0.00	0.00	0.00	0.00	41,400.45
								AFUDC: 1,582.08		
					55,678.42	0.00	0.00	0.00	0.00	53,513.69
Grand Totals:					\$ 55,678.42	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 53,513.69

MEMORANDUM

September 9, 2016

TO: Board of Directors
FROM: Foster Hildreth
RE: CFC District 9 Voting Delegate

The CFC (Cooperative Finance Corporation) Districts 7 and 9 combined member meeting will be held Wednesday, October 5 immediately following the NRECA Regions 7 and 9 First General Session in Reno. Note that these dates conflict with the PNGC annual meeting October 3-4 and OPALCO's open houses planned for October 6, 7, 10 and 11.

At this time, no one plans on attending from OPALCO. CFC bylaws allow voting by mail.

Staff requests a motion to elect a voting delegate and alternate for the CFC District 9 meeting October 5, 2016.



MEMORANDUM

DATE: August 15, 2016
TO: CFC District 9 Member Managers
FROM: Brad Captain, Senior Vice President, Corporate Relations
SUBJECT: CFC District 9 Meeting

We are looking forward to seeing you and your board at our upcoming combined Districts 7 and 9 member meeting on Wednesday, October 5, immediately following NRECA's First General Session, at the Peppermill Resort Spa Casino in Reno, Nevada. In addition to hearing a financial update on CFC, registered delegates in District 9 will elect a Nominating Committee that will be responsible for selecting nominees for the CFC District 9 board seat (Position D) that will open in 2018.

Meeting Materials

Enclosed you will find various items relating to the district meeting, including:

- Official Notice of Meeting
- Minutes from the 2015 district meeting
- 2017 Proposed Nominating Committee
- Delegate Registration Card
- Mail ballot and return envelope

Onsite Registration

All delegates attending the meeting, *including those who vote by mail*, should fill out the enclosed Delegate Registration Card and present it to staff at the CFC registration area on site. For quorum purposes, please register even if you have voted by mail.

Voting

CFC bylaws allow members to vote by mail or on site at the meeting where the election is held. Under CFC bylaws, no individual can represent more than one system.

To Vote on Site:

- Complete and sign in full (including the signature of an officer of your system) the enclosed Delegate Registration Card and present it to CFC staff in the registration area. Onsite voting will occur during the CFC business meeting.

(Over)

To Vote by Mail:

- Complete and sign in full the enclosed mail ballot. Place the ballot in the return envelope and mail to CFC. *The CFC bylaws specify that mail ballots must be received at CFC headquarters via U.S. Postal Service at least five business days (Wednesday, September 28) before the meeting. Please note: Only original mail ballots will be accepted; photocopies of mail ballots will be voided.*
- If a delegate representing your cooperative attends the meeting, he or she should provide the completed Delegate Registration Card to CFC staff on site when registering. Please *do not* include this card with your mail ballot.

Business Meeting and Lunch

CFC will hold a brief business meeting chaired by Kirk A. Thompson, CMS Electric Cooperative (KS), with Roman E. Gillen, Consumers Power (OR), serving as the secretary-treasurer, followed by a luncheon for all NRECA Regional Meeting registrants. At the luncheon, CFC CEO Sheldon C. Petersen will address attendees and offer his views about the current state of the financial and utility industries.

Questions

If you have any questions, please contact me or CFC Director of Member Communications Perry Stambaugh. We can be reached at 800-424-2954.

We hope you will join us in Reno!

Enclosures (6)

District 9 Notice of Meeting

To Our District 9 Member-Owners:

We invite you to attend CFC's District 9 Meeting of Members that will be held on:

**Wednesday, October 5, 2016
11:30 a.m.**

Peppermill Resort Spa Casino

The purpose of the meeting will be to:

- Hear a report on the financial status of your finance cooperative.
- Elect a Nominating Committee that will be responsible for selecting nominees for the District 9 board seat (Position D) that will open in 2018.

Please also join us for the CFC-sponsored luncheon immediately following the business meeting. Luncheon speaker CFC CEO Sheldon C. Petersen will offer his views about the state of the finance and utility industries.



Assistant Secretary-Treasurer



Minutes of the 2015 Districts 7 & 9 Meeting of Members
Grand America Hotel
Salt Lake City, Utah
September 30, 2015

CFC Districts 7 and 9 held a joint membership meeting on September 30, 2015, at the Grand America Hotel in Salt Lake City, Utah. CFC District 9 Director Doyle Jay Hanson, who served as Overall Chair for the combined meeting, called the meeting to order at 11:32 a.m. (local). CFC District 7 Director Kirk A. Thompson served as Overall Secretary-Treasurer for the combined meeting.

Chair Hanson welcomed the members and introduced the following CFC directors who were seated on stage: District 9 Director Roman E. Gillen, District 7 Director Kirk A. Thompson and At-Large Director Patrick L. Bridges.

Chair Hanson called upon Director Bridges to attest to the presence of a quorum in District 7. Mr. Bridges reported that 65 representatives of member systems had registered out of a total membership of 101 systems. He stated that a quorum was present.

Chair Hanson called upon Director Gillen to attest to the presence of a quorum in District 9. Mr. Gillen reported that 50 representatives of member systems had registered out of a total membership of 120 systems. He stated that a quorum was present.

Chair Hanson, noting that copies had previously been distributed to members, and hearing no objections, dispensed with the reading of the Official Notice of Meeting, the reading of the minutes of the 2014 Districts 7 and 9 Meeting as well as the Affidavit of Mailing.

Chair Hanson invited Director Bridges to the podium to present a financial report. Director Bridges gave highlights of CFC's recent accomplishments and then showed a video detailing CFC's 2015 fiscal year highlights. [Members may obtain a more detailed analysis of CFC's financial performance by visiting www.nrucfc.coop and reviewing CFC's SEC 2015 10-K filing.]

Chair Hanson invited Director Gillen to the podium to introduce a video of CFC staff and show the behind-the-scenes commitment of CFC to its members.

Following the video, Chair Hanson presented the following slate of candidates for election to the 2016 District 7 Nominating Committee, as suggested by the CFC Board of Directors: Bruce Graham, (Chair) Kansas; Kent Singer, Colorado; Troy Bredenkamp, Nebraska; and Shawn Taylor, Wyoming.



Chair Hanson called for a motion to elect the 2016 Nominating Committee for District 7 as presented and authorize the CFC board to fill a committee vacancy if one should occur during the year. The motion passed.

Chair Hanson then conducted the CFC director elections. He described the At-Large director position on the board and the process by which every district will vote for the At-Large candidate. He then introduced the candidates for the District 7 director-director position election: Robert Brockman, board president, Wheatland Rural Electric Association in Wyoming, and Scott Smith, director, Garland Light & Power Company in Wyoming. Chair Hanson stated that it is CFC's custom to give candidates the opportunity to speak, and Mr. Brockman chose to address the members. Chair Hanson then introduced the candidates for the District 9 manager-director position election: Roman Gillen, president and CEO, Consumers Power in Oregon, and Brad Janorschke, general manager, Homer Electric Association in Alaska. Both candidates addressed the members.

Chair Hanson stated that the CFC bylaws allow voting by mail in addition to onsite voting. He announced that 26 mail ballots had been received for the District 7 director-director and At-Large director elections and 29 mail ballots had been received for the manager-director and At-Large director elections in District 9. He noted that these ballots had not yet been counted and would be added to the ballots cast on site when election tellers tally the votes.

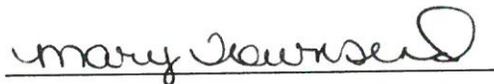
Chair Hanson introduced the tellers who would supervise the voting process and count ballots in the District 7 and 9 elections. District 7 tellers were Troy Bredenkamp, general manager, Nebraska Rural Electric Association and Kent Singer, executive director, Colorado Rural Electric Association. District 9 tellers were Kent Lopez, general manager, Washington Rural Electric Cooperative Association, and Michael Peterson, executive director, Utah Rural Electric Association.

Chair Hanson called voting delegates in Districts 7 and 9 to the voting tables to cast ballots.

Following the balloting, the joint meeting for Districts 7 and 9 was adjourned at 12:07 p.m. (local) with election results announced at the luncheon.

(Robert Brockman was elected to the District 7 director-director position and Roman Gillen was re-elected to the District 9 manager-director position. Mr. Brockman will be seated immediately. Counts for the At-Large position will be tallied and the results announced after all district meeting elections are held.)

Respectfully Submitted:



Mary Townsend, Recording Secretary

District 9
2017 Proposed Nominating Committee

IDAHO

Will Hart (Chair)
General Manager
Idaho Consumer-Owned Utilities
Association
Boise, Idaho

ALASKA

Crystal Enkvist
Executive Director
Alaska Power Association
Anchorage, Alaska

CALIFORNIA

Jessica Nelson
General Manager
Golden State Power Cooperative
Portola, California

HAWAII

David Bissell
President & CEO
Kaua'i Island Utility Cooperative
Lihu'e, Hawaii

MONTANA

David Wheelihan
CEO
Montana Electric Cooperatives'
Association
Great Falls, Montana

NEVADA

Clay Fitch
Executive Director
Nevada Rural Electric Association
Wells, Nevada

OREGON

Ted Case
Executive Director
Oregon Rural Electric Cooperative
Association
Salem, Oregon

UTAH

Mike Peterson
Executive Director
Utah Rural Electric Association
South Jordan, Utah

WASHINGTON

Kent Lopez
General Manager
Washington Rural Electric Cooperative
Association
Olympia, Washington





2016 District 9 Meeting Official Mail Ballot

District 9 2017 Nominating Committee

(Vote either "For" or "Against" the proposed Nominating Committee.)

- FOR** (I vote in favor of the proposed Nominating Committee.)
- AGAINST** (I vote against the proposed Nominating Committee.)

Co-op: Orcas Power and Light Co-op

Co-op ID: WA009

I hereby certify that I am the official voting delegate and am duly authorized to cast the vote of this member.

Signature: _____

Print Name: _____

Title: _____

Date: _____

*Once you have marked your vote and completely filled out this ballot, please fold and place it in the postage-paid envelope addressed to Mary Townsend at CFC. Mail-in ballots must be received via U.S. Postal Service. **To be counted, ballots must be received at CFC headquarters by Wednesday, September 28, 2016.***

MEMORANDUM

Date: September 9, 2016

To: Board of Directors

From: Foster Hildreth

Re: OPALCO Position on WA I-732

The purpose of this action item is to have the board make a formal position with respect to Washington Carbon Emission Tax and Sales Tax Reduction (WA I-732). As a point of reference, WRECA has expressed their opposition to WA I-732 (as seen in Informational Items section in this report). We also received member communication in support of WA I-732 from Scott Finley (see Informational Items section of this report).

Background

WA I-732 places a price on CO₂ emissions to encourage a shift to cleaner energy. The Initiative would levy an escalating tax on carbon emissions from fossil fuels, with an initial tax of \$15 per metric ton of carbon dioxide emissions in 2017, increasing to \$25 in 2018, thereafter increasing annually 3.5% plus inflation up to a \$100 limit.

The goal is to make the carbon tax revenue neutral. Tax revenues will be used to:

- Reduce the state sales tax by one full percentage point.
- Fund the Working Families Rebate to provide up to \$1,500 a year for 400,000 low-income working households.
- Effectively eliminate the B&O business tax for manufacturers.

Pros and Cons

Of concern, carbon tax revenues would not be used to accelerate clean energy infrastructure or energy efficiency. In addition, WA DOR estimates that WA I-732 will not be revenue-neutral, resulting in \$900 million of lost revenue, putting already underfunded budgets for education, social services, and the environment at greater risk.

The administrative and reporting requirements in WA I-732 will result in increased staff time, the cost of which is not currently determinable.

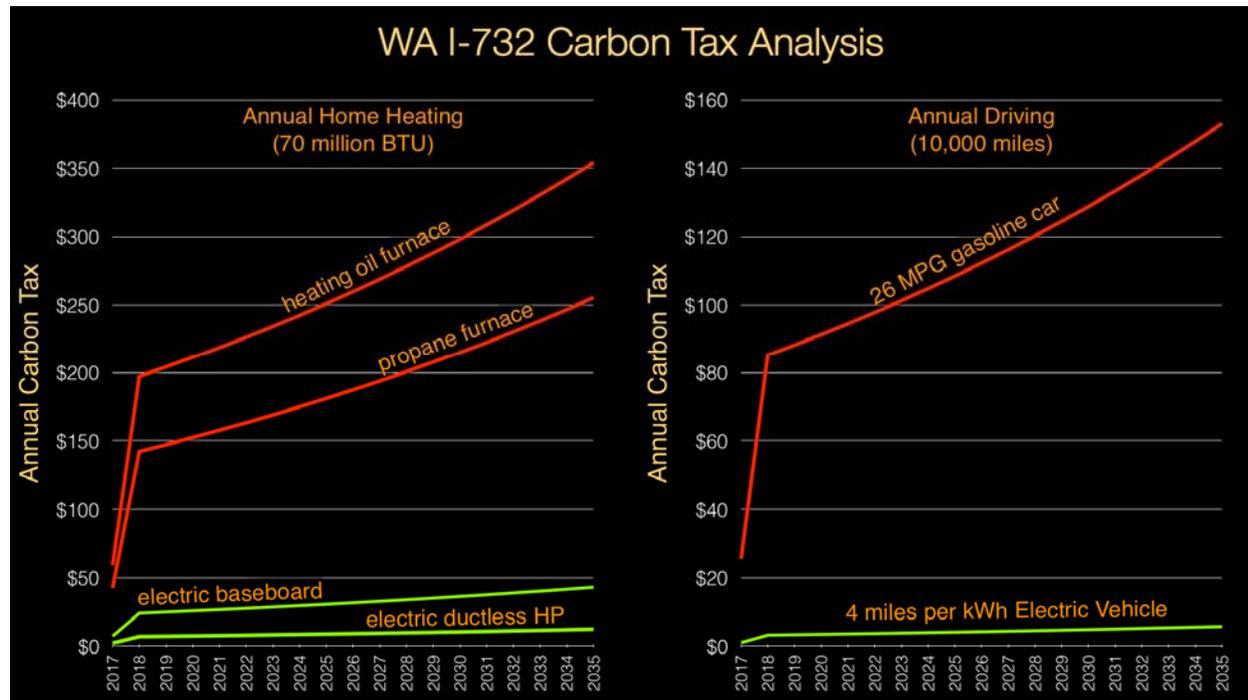
OPALCO purchases wholesale power from BPA, most of which is generated through hydroelectric projects that do not produce any carbon emissions. The remaining small portion purchased on the open market may include electricity generated by fossil fuels (estimated to be about 4.7%). The carbon tax will increase the cost of BPA energy to some extent. By 2019, our 200 million kWh of annual energy purchased from BPA at about \$6.8 million, would require about \$243,000 of carbon tax be added to the cost of energy – an increase of about 3.6%.

On the other hand, because OPALCO's fuel mix has a much lower carbon intensity than propane, heating oil and gasoline, the impact on OPALCO cost of energy will be much less than those other forms of energy will receive. The diagram below shows the anticipated WA I-732 carbon tax impact on heating and driving. Fossil fuels like propane, heating oil and gasoline are in red, while

OPALCO energy is in green. Electric heating is shown for standard electric baseboard and ductless heat pumps. Fossil fuel heating is shown for propane and heating oil furnaces. Tax impact on driving is shown for electric vehicles and conventional gasoline cars.

Where OPALCO members would average \$10 to \$25 per year in carbon tax, propane, heating oil and gasoline consumers would typically be saddled with over \$200 in carbon taxes.

This disproportionate cost increase in carbon-intensive fossil fuels will further accelerate co-op members fuel-switching from fossil fuels to cleaner lower cost OPALCO energy.



Staff Recommendation

Our members will weigh the various pros and cons of WA I-732, and will express their opinion through their vote. Regardless of the outcome, we will continue working on those projects which help our county and state reach their goals for carbon reduction and renewable energy.

Staff recommends that OPALCO take a neutral position on WA I-732. Despite the mix of pros and cons, regardless whether WA I-732 passes, OPALCO has and will continue to be a leader in reducing carbon emissions. We do this in four ways:

1. Helping our members increase energy efficiency and reduce waste;
2. Helping members transition their energy use, such as heating and transportation, from fossil fuels to clean electric energy;
3. Modernizing the grid to support increases in local renewable energy and storage and make it as efficient and as safe as possible;
4. Developing local renewable energy resources as they become technically and economically viable.

MEMORANDUM

September 9, 2016

TO: Board of Directors

FROM: Foster Hildreth

RE: Moss Adams Engagement Letter

As in prior years and requested by Moss Adams, the board will review the Moss Adams' confidential Engagement Letter for Audit and Non-Attest Services and Addendum for Business Entity Tax Returns for fiscal year 2016 in executive session. The 2016 engagement scope includes both OPALCO and Island Network LLC.

Upon review in executive session, Staff recommends that the Board make a motion to approve execution of Moss Adams' engagement letter(s) as reviewed in executive session as well as identify any additional scope of work that the Board recommends be performed by Moss Adams as part of the 2016 year-end audit and tax return process.

MEMORANDUM

September 9, 2016

TO: Board of Directors

FROM: Foster Hildreth

RE: Member Review Committee on Elections

At the April board meeting, the Board directed staff to develop a method by which members could participate in a comprehensive review of OPALCO's election process. After inviting members to participate in a Member Review Committee on Elections (through ads, website, bill insert and newsletter), a total of 8 members responded and all were accepted. Seven members participated in the committee work.

We extend our appreciation to the independent, volunteer member committee for their hard work and thoughtful review of our election process. They met weekly during the month of August and put in long hours to develop their recommendations.

Members of the Election Review Committee will be present at the September 16th meeting to give a presentation of their recommendations and answer questions. The full committee report is included here.

The timeline for next steps is:

Sept 16: Board discussion of committee recommendations

Oct 7-11: Member feedback on recommendations at open house events

Oct 20: Board decision making on election changes

September 9, 2016

Dear OPALCO Board of Directors:

Please find attached the results of our Member Review Committee on elections. After meeting weekly through the month of August, our Committee of seven Co-op members representing all four OPALCO districts has thoroughly and thoughtfully reviewed the entire election process, including any bylaw and/or policy implications. A list of seven recommendations for changes to the OPALCO election process is attached.

The Committee's mission statement is: *To support a transparent election process that enables members to feel fairly and well represented.*

During the past six weeks of meetings, comprehensive research and diligent review there was healthy debate and discussion among the Committee members. In addition, Committee members sought input from members in their districts, which was shared with the Committee as a whole.

The Committee stands in complete consensus with these findings, as presented, and we ask that the Board give them serious consideration as a whole. Each of the seven recommendations is an integral and necessary part of the whole solution, in order to reach our goals of fairness, transparency and good communication with the membership.

We understand the Board will review and discuss these recommendations at the September 16th board meeting and then collect broad member feedback on the recommendations during member open house events in October. Committee members will attend these open house events and also the October 20th board meeting when the Board will make decisions on changes that will be enacted before the 2017 election cycle begins.

The Committee thanks the OPALCO leadership for this opportunity to be of service to our member-owned cooperative and especially thanks the Board Members for their duty of care and initiative in asking members to participate in this process, which is key to our representative democracy.

Sincerely,

Wally Gudgell, Co-Chair (Orcas Island)

Terry O'Sullivan, Co-Chair (Orcas Island)

Douglas Marshall (Orcas Island)

Ed Sutton (Orcas Island)

Gabriel Jacobs (Shaw Island)

Rob Thesman (Lopez Island)

Stephen Shubert (San Juan Island)

REPORT OF OPALCO ELECTIONS REVIEW COMMITTEE

For Presentation to the Board of Directors, September 16, 2016

Opalco Members Participating on the Committee: Terry O’Sullivan, Co-Chair; Wally Gudgell, Co-Chair; Gabriel Jacobs, Doug Marshall, Rob Thesman, Stephen Shubert & Ed Sutton

OVERVIEW & SUMMARY

The charge given to this volunteer Committee was “to help Opalco conduct a comprehensive review of the co-op elections process”. To define our work plan more precisely, we concluded our mission was “to support a transparent election process that enables members to feel fairly and well represented”.

During our Committee’s five work sessions, we reviewed the election-related portions of Opalco’s governing statute (Ch. 24.06 RCW), the Articles of Incorporation, the Bylaws, the Director Candidate Disclosure Statement, Sections 5 and 11 of the Board’s “Policy 1” statement, and the “Election Neutrality” policy document which guides employees.

This Report presents to the Board seven categories of recommendations which we feel will (1) promote fairness in election procedures, (2) provide transparency for members looking at the process, and (3) promote more communications with members. We believe these three values will, in turn, support the larger objective of encouraging members’ participation, promoting confidence in the election process, and helping select effective directors.

We emphasize that these recommendations are not in any way a commentary on the current directors. In fact, only a few of our Committee’s members actually are well acquainted with the current directors. These recommendations are designed to help our cooperative ensure capable leadership in the years to come, and we believe they will be in the best interests of the Opalco cooperative.

Our 7 categories of recommendations are explained in detail in the 7 Sections which follow. They are summarized here:

Recommendation #1: Encourage more member interest in the cooperative and its election process. Several specific suggestions are offered, including formal district meetings.

Recommendation #2: Elect five of the director positions by district and two at large, in order to encourage greater interest and promote member communications. Replace the present four

districts with the same three districts used in County Council elections, and stagger the terms from each district (rather than electing all directors from each district during the same year), so that almost all members vote each year on at least one director position. Recommended transition steps are suggested.

Recommendation #3: Create a standing Nominating Committee composed of 3 members from each director district, each with rotating 3 year terms. Recruit and nominate the best Board candidates, regardless of incumbency.

Recommendation #4: Adjust the elections timeline to provide more time for nominating directors by petition, and update the required number of petition signers from 15 to 20.

Recommendation #5: Obtain member feedback over the next year regarding the concept of having up to two additional Board positions elected by the Board, based on candidates' expertise – but with no requirement that the director be a member. Non-member directors are allowed by state law, and this option also is recognized by the Rural Cooperatives Business Services agency of USDA. Our Committee envisions that the seven Board members elected from among the membership would then select individuals whose background would help the Board address our cooperative's challenges. The goal is an experienced board with a broad skill set.

Recommendation #6: Review director compensation, and publicize the benefits of board service during the nominating process.

Recommendation #7: Adopt a series of clarifying "housekeeping" changes to the provisions of the Bylaws that relate to elections.

We hope these recommendations will be adopted in time for next Spring's elections, although we recommend waiting to obtain member feedback before formally considering the Recommendation #5, that the Board could select up to 2 additional directors for their expertise, and who need not be members (expanding the board from 7 to 8 or 9).

An additional thought: We humbly suggest that this review of the elections process has been a helpful and worthwhile exercise. It was apparent that the Bylaws we reviewed needed updating, and we suggest that a review of the remaining Bylaw provisions also would be worthwhile. We suggest that the Board consider establishing a similar committee of volunteer members every five years or so, to review Opalco's entire set of bylaws and related documents.

Recommendation #1 – Encouraging More Member Interest

Your Committee believes there will be more interest in elections, and a stronger election process, if there is more interest in all aspects of the cooperative. We recognize that creating member interest and involvement is always a challenge for any cooperative. So, we start with a series of suggestions which should help stimulate interest in both the cooperative and the election process.

Many cooperatives use their director districts for “local” meetings to promote member communications and involvement. Opalco is fortunate to have a strong member communications program, but we believe that as a general rule cooperatives benefit from frequent opportunities for direct communication between directors and their constituents. We believe such contacts will, over time, stimulate member interest in the elections process and promote participation in elections.

District meetings should be chaired by local directors. We envision director and management presentations, followed by discussions, including pros and cons. This should give members a feel for the issues their directors confront, provide an opportunity for dialogue, and help members come to know the people who run for the Board positions. Such meetings also offer a great opportunity to solicit member feedback on topics of interest. And the elections process itself could be used for informal advisory balloting, much like formal resolutions. Asking for input makes it more likely that members will participate. Publicity for the meetings should emphasize the topics of discussion.

We recommend that Opalco hold at least two such meetings each year in each district, one just before ballots go out that would include a Candidate Forum and other topics, then a second meeting in the fall. In addition to discussion about Opalco, the meeting could be used to help generate interest in serving on the Nominating Committee or becoming a director candidate. The Board seems to have been moving in this direction, with Candidate Forums and informal member meetings. We recommend formalizing it.

This Committee supports continuing the concept of retaining a professional moderator for the “Candidate Forum” portion of these district meetings. The moderator also should oversee a debate regarding any resolutions or other ballot propositions.

Ideally the Spring meetings would be scheduled after a “Voting Guide” has been finalized, so it can be distributed as a handout, but before the ballots have been mailed out. The Voting Guide is not discussed in the Bylaws or policy documents, so we are not sure who approves it – but we recommend that the Board (or a designated Board member or Board Committee) do so. We also recommend that when a resolution is to be voted on, statements “pro” and “con” should be solicited, with each side then being allowed to submit one responding rebuttal. The Washington State Voters Guide would be the model. We note that when multiple statements are submitted pro or con, the Secretary of State encourages submitters to consolidate their statements.

Section III.b(3) of the Bylaws presently requires that the ballot used for director elections “*shall show separately nominations made by the nominating committee and the nominations made by*

petition". Our Committee is concerned this might be interpreted as favoring those nominated by committee. We believe this identification is appropriate information for a candidate's statement in the Voting Guide, but feel it should not appear elsewhere in the Voting Guide or on the ballot itself.

Underlying this Recommendation #1 is our strong belief that member meetings will be better attended if they are seen as substantive information meetings with opportunity for Q&A. In keeping with that, we suggest that in the past too much time at the annual meeting has been devoted to the elections process, relative to the amount of time spent in substantive discussions. We recommend that the Board consider requiring all ballots to be received by mail or electronically or in person at the Opalco offices, by a published deadline a day or two prior to the meeting (and discontinue voting "on the boat"). Instead, a Ballot Committee could convene on the day prior to the Annual Meeting to count the votes cast, and the results could be posted as soon as the Committee completes its work. Then, the formal report of the Ballot Committee can be formally "received" by Motion at the Annual Membership Meeting itself, and the new directors can be formally declared to be elected.

Together, the various steps recommended above should help make the process as fair as possible, and also will promote a culture of member ownership and involvement. The Committee clearly understands that, in any member-based organization, members will be less interested when things are perceived as going well, and more interested when problems are perceived. The goal should be to sustain interest at times there are no "hot button issues".

Recommendation #2 – Elect 5 Directors "By District" and 2 "At Large"

This recommendation builds upon the above Recommendation to strengthen the election district concept. We propose that five of the board positions should be voted upon only by members in each district ("elected by district"), with all members voting on the other two positions ("elected at large").¹

Opalco's current practice is to nominate by district, but to elect at large. While this ensures geographic diversity, it does not promote familiarity with the candidates. And it creates the possibility that a district could be represented by a candidate who had only a minority of votes from the district (if the other districts favor that candidate). We note that in the last election cycle, the turnout was far greater from the Lopez District than from the other districts. The Committee believes this was probably because voters in the other districts were not comfortable choosing from

¹ Seattle recently changed its City Council positions to elect some by district and others at large, to obtain a balance between the two concepts.

candidates they did not know. We see a similar phenomenon in elections for public office, where many voters abstain from voting for minor offices with less well known candidates².

We believe that election by director districts would enhance district meetings, and make directors better known in their districts. An analogy is that we are less likely to interact with our U.S. Senators (elected statewide), than with our State Senator (elected from one of 49 legislative districts in the State). While our goal is that directors should be closer to their districts, and elected from their district, this also could make it tempting to promote the interests of the district over the interests of the entire cooperative. We emphasize that the obligation of all directors is to make decisions which benefit the cooperative as a whole, not their district, and we recommend that the Board work with legal counsel to include a statement to that effect in its policy on “Functions of the Board”.

This Committee took into consideration the fact that a proposal for periodic redistricting was rejected by the membership at the last annual meeting, and we asked ourselves whether this current recommendation is inconsistent with that vote. We concluded that our recommendation is quite different in its intent from the Bylaw change that was proposed. The major opposition arguments in the Voting Guide were that the language was vague as drafted, and that it would be unnecessarily expensive to go through a redistricting process more often than needed. This proposal addresses both issues by recommending that Opalco director districts adopt the boundaries established for County Council districts, as they may be adjusted by the County from time to time. The Board has (and should have) the flexibility to adjust those boundaries for Opalco’s purposes, if it wishes to wade into the controversies inherent in finding a “better” set of boundaries.

We recommend that the current 7 board positions be elected as follows:

- Positions 1 and 2 elected by the San Juan Island District (est. over 5,000 members)
- Positions 3 and 4 elected by the Orcas Island District (est. about 3,700 members)
- Position 5 elected by the Lopez/Shaw/Decatur District (est. about 2,500 members)
- Positions 6 and 7 elected at large.

The Committee concluded that a system of three election districts should be used, because the numbers of members in the present four Opalco membership districts are too disproportionate to be used for elections by district. We recommend using the three County Council districts because they are generally accepted as fair, and may be the easiest boundaries for members to understand. However, the Committee also feels that the Board should consider adjusting the county boundaries if appropriate to achieve better proportionality of representation, and we suggest reviewing district membership at least every five years to reassess population changes. ***Attached as Appendix 1 are maps showing the current Opalco Districts and the County Council Districts.***

² It is widely accepted that familiarity with the candidates is a factor in voter participation, and in abstentions. For example, during the 2012 statewide election, more than 3 million votes were cast in a hotly contested race for Governor, whereas votes cast in the various Court of Appeals races totaled roughly half that amount.

One issue highlighted in the Committee discussion was that the all of the islands in the present Opalco "Shaw District" are part of the "Orcas" county council district, with the exception of Canoe Island and Shaw itself. Moving Shaw and Canoe to that district as well would make the membership breakdown between the three districts slightly closer to the 2-2-1 ratio (40%-40%-20%) of the five district Board positions, and it would make it more convenient for Shaw residents to attend their district meetings if held on Orcas. We leave it to the Board to judge whether it is better to make such district adjustments, or to simply hold fast with the County Council districts (as they may change from time to time) and thereby avoid spending a lot of board time on districting issues.

We recommend promoting interest in director elections by staggering the terms so that most members vote on at least one director position every year. For example, the 3-year election cycle might look like this:

2017: Positions 1 and 3

2018: Positions 2 and 4 and 6

2019: Positions 5 and 7

With that election cycle, every district would have at least one race to vote on each year, except the first year of the cycle when the Lopez/Shaw/Decatur district would not. This fits with our first recommendation, of having district meetings twice a year -- one prior to the Annual Meeting, to include candidates; and then a second meeting in the fall when candidates are being sought for the Nominating Committee and the director elections.

We recommend that the transition to the proposed election cycle should honor the existing terms of the elected directors, by using the following steps. Ask the current directors to pick, in order of their seniority on the Board, their choice of the new board positions for which they are eligible (that is, a position from their district, or an at large position). Then after expiration of the present 3 year terms to which the current directors already have been elected, short term elections should be held as needed to achieve the staggered term concept described above.

Recommendation #3 – Strengthen the Nominating Process

During our Committee's discussions about this Recommendation #3 and the Recommendation which follows, we recognized how important, and how difficult, the Nominating Committee's task really is. We developed two recommendations about the Nominating Committee composition that we believe will help the Nominating Committee recruit excellent candidates:

First, we recommend that it be a standing committee with staggered and rotating three year terms, rather than being appointed with new members each year. Sometimes candidate recruitment is a multiple year process. Continuity will promote a more efficient process. A standing committee ideally should reflect the district structure in its composition. We recommend appointing three members from each of the three director districts described in the previous recommendation. The

three from each district would recommend candidates from their district and at-large candidates, for approval of the nine member Committee as a whole. Ideally the three from each district would come from more than one island, so that potential candidates on the smaller islands can be more easily identified. These suggestions about the Nominating Committee could be addressed in the Bylaws, or in Section 11 of Board Policy 1.

Our second recommendation about the composition of the Committee is that, ideally, it would include at least one former Board member, who can explain what is expected of potential nominees and perhaps guide the Committee toward the needs of the cooperative. This may not always be possible, so it should not be specified in the Bylaws.

Bylaw Article III.3(a), which covers the Nominating Committee, provides that the Committee *“if possible, should nominate at least two (2) candidates for each open position, one of whom shall be the incumbent director, unless such director does not wish to be considered for re-election”*. This Elections Review Committee feels that the Nominating Committee members should be free to select what they feel are the best candidates it can find, regardless of incumbency. We recommend that this Bylaw provision be modified to end the sentence just quoted after “open position”. We note that a director who is not selected by the Committee is free to seek re-election by petition, just as is any other candidate who is not nominated by the Committee. We could identify only one rationale for giving incumbents a preference, and that is because a lot of time and expense has been invested in educating them during their service on the board. We concluded, however, that the importance of prior service is a decision for the Nominating Committee and the members to make.

The ability of the Nominating Committee to seek good candidates is intertwined with the subject of eligibility to serve as a director, because eligibility conditions restrict the pool of people from whom nominees can be recruited. Section III.2 establishes three eligibility requirements. The Committee supports the philosophy behind two of them: a director candidate must not be employed by Opalco, nor have an employment or financial relationship with any business which competes with Opalco. The Committee does not understand the rationale for the third requirement, which denies eligibility to a candidate who has run within the past three years; this makes a bit of sense under the current election procedure, but it would become more relevant, and less understandable, if at large board positions are created (as this Committee recommends). We also recommend that these Bylaw provisions be clarified to explicitly apply to the employees and competitors of Opalco **“or any subsidiaries of Opalco”**.

Section III.2 also provides that a potential candidate is disqualified if one of these conditions applies to a “husband” or “wife”. We suggest that consideration should be given to whether the same rationale should apply to children or parents of a candidate (some conflicts of interest policies use the term “close relatives”). In addition, legal counsel should be asked whether applying the restriction to a spouse violates the law against discrimination based on marital status, inasmuch as it would allow service in a similar situation involving unmarried couples.

This Committee recommends that candidate eligibility should be reviewed and considered in the larger context of an Opalco conflict of interest policy. Presently, the Board's policies have one paragraph which requires disclosure of conflicts (paragraph 4). We recommend that the Board establish a process to review conflict and disclosure policies. Once a comprehensive Conflicts policy is developed, the Bylaws could be amended to replace the specific director qualifications discussed above, with a statement that all candidates must comply with a new Bylaw provision that covers Conflicts and Disclosure.

The three substantive questions which should be considered are: (1) what types of situations should totally disqualify an individual from board service, (2) what other types of situations should be disclosed by any director as a potential conflict of interest, and (3) whether, when such a potential conflict arises, the remedy is recusal or merely disclosure of the conflict. A process question is whether to use a disclosure form, which would be filled out by all candidates and annually by all directors -- or merely require disclosure at the time a potential conflict arises.

This Committee leans toward disclosure, rather than disqualification from board service. We recommend recusal in "significant" conflict situations, although all conflicts involving a non-trivial business relationship with Opalco should be disclosed. We recommend having all directors fill out an annual disclosure statement, and that all candidates for board positions do so as well – with the forms then included along with the Candidates' statements in the Voting Guide. The "Washington Nonprofit Handbook"³ and the Benton REA documents in the Committee's file illustrate some of the concepts we are suggesting.

Finally, this Committee recommends deletion of Bylaw Section V.11, which provides that an employee of Opalco who is a director or a close relative of a director shall have their compensation set by the members. Compare the director qualifications in Section III.2, which prohibits a director or spouse to be an employee. As to other close relatives Section V.11 may cover, requiring member approval of compensation is tantamount to a prohibition on board service. This should be superseded by the sort of comprehensive conflicts of interest policy recommended above.

Recommendation #4 - Timelines

Currently, Bylaw Section III.3(a) requires the Nominating Committee to be appointed at least 100 days in advance of the Annual Meeting, and they must submit their report at least 70 days prior to the Annual Meeting. The Committee feels the 30 day period is appropriate.

Candidates who are not selected by the Nominating Committee but still wish to file by petition have until 55 days prior to the meeting to obtain 15 signatures. Depending on when the Nominating

³ See pages 33-34 of this handbook, which is available on the Secretary of State's web site at https://www.sos.wa.gov/_assets/charities/Washington%20Nonprofit%20Handbook.pdf

Committee report is filed, this can leave only from the 70th day to the 55th day (as few as 15 days) to seek nomination by petition. The Committee feels that a longer period for petitions would be fairer, and recommends that the Nominating Committee's work period be adjusted to 110 and 80 days prior, thereby allowing 10 more days for the petition process. We note that moving up the time frame by 10 days probably makes it desirable to begin the outreach to solicit volunteers for the Nominating Committee meeting during October.

Our Committee also recommends that the number of petition signatures be increased from 15 to 20. This also justifies a longer period for the petition process. We suspect that there were many fewer members when the requirement of 15 petitioners was established, so requiring 20 rather than 15 petitioners will be consistent with past percentages of the membership. We took note of a recent NRECA study of cooperative practices indicates that typically, the number of petitioners needed to nominate a director is in the 11 to 25 range.

Our Committee supports the current practice of using an outside vendor to conduct balloting. We understand the current vendor needs about 3 weeks between finalization of the candidate slate and the date ballots are mailed. If ballots are to be mailed out early in the 10-35 day period specified in Bylaw Section III.3(b), the candidate slate must be finalized no later than the currently required 55th day. Therefore, we recommend retaining the present 55th day deadline for filing nomination petitions.

We call to the Board's attention a confusing aspect of the timelines in the Bylaws. Currently Bylaw Section II.3 provides that Notice of a Special or Annual Meeting of the members must be given 10 to 50 days prior to the meeting. But Section III.3(b) provides that the period for sending out absentee ballots is 10 to 35 days prior to the annual meeting, "**together with notice of said meeting, containing appropriate information and instructions relative to voting**"

These two notice periods overlap, which may or may not have been intentional. A single notice meeting the second time frame would meet both requirements. The Committee supports what we are advised is the current practice: a first notice is given at around the 50 day mark, and then a second notice goes out with the ballots. If such a two-notice system is the intent, that should be clarified in the Bylaws, with the first notice given out approximately 50 days prior, and the second notice roughly 35 days prior. If the Board disagrees with our recommendation for a two-notice system, it would be helpful to clarify the intent of having two separate provisions and what they mean (especially when there are resolutions and director elections on the same ballot).

We are concerned that the ten-day notice periods in the two provisions just discussed are insufficient to adequately publicize the meeting, and explain the agenda. We recommend that there be at least 21 calendar days' notice, rather than 10.

The current timelines in the Bylaws are, necessarily, counted backwards from the annual meeting at which elections occur. In the past, some ballots have been cast at the annual meeting. As discussed earlier (Recommendation #1), this Committee recommends that all the votes be due a

day or two prior to the annual meeting, rather than at the Annual Membership Meeting, with the report of the Ballot Committee then being posted as soon as that committee is able to complete their vote tally. That Committee Report should formally presented at the annual meeting, and be “accepted” to finalize the elections process. This maintains consistency with the usual practice of electing directors at annual membership meetings, while minimizing the time devoted to elections during the annual meeting (to allow more time for substantive discussion).

Finally, we interpret the various date ranges in the timelines to be calendar days. We recommend that this be clarified. One approach would be to insert the word “calendar” wherever appropriate. But then it would be helpful to also clarify what happens if a deadline for filing a nominating petition falls on a weekend or holiday. An alternative approach would be to simply convert all the time periods to “business days” (which automatically excludes weekends and holidays).

Recommendation #5 – Option to Select Additional Directors for their Expertise

Our Committee recommends that over the next year or so, the OPALCO board should sponsor a constructive member discussion about whether it would be helpful to add up to two more directors to the 7-member board, who would be elected by the Board based upon their expertise in a field that the elected directors feel would be helpful, and without regard to whether they are members. Nonmember directors are explicitly allowed under our organizing statute⁴, and are likely to be acceptable to Opalco’s lender (the Rural Utilities Service of USDA, or RUS) inasmuch as it is an option publicized by the Rural Business Cooperative Service of USDA (RBCS).⁵

Whether to take advantage of that opportunity, and how it should be structured, should be thoughtfully discussed with the membership. Attached to this report, as Appendix A, is a front/back 2-page handout that could be used for that discussion, which includes an excerpt from an RBCS publication. As RBCS noted, a Board always has the option to hire consultants, but this concept goes beyond consulting -- to bringing an experienced individual into the management of the cooperative. We recommend annual terms for these appointed directors, which would allow the elected directors to periodically review the value of this concept and to make changes as different types of needs are identified. This review committee feels that this concept could be very positive for our cooperative, but we propose it as an option for the Board to use if the elected directors see fit.

⁴ The chapter of state law under which Opalco is organized provides that directors “need not be residents of this state or members or shareholders of the corporation” (RCW 24.06.125).

⁵ See RBCS Cooperative Information Report 60, “Agricultural Cooperatives in the 21st Century”. That Report draws from focus panels of prominent members of the cooperative community across the country. *“Panelists repeatedly urged the inclusion of one or more outside directors on cooperative boards. Outside directors are typically non-members who are experts in areas vital to the association but normally outside the experience of [members], such as finance and marketing. Preferably, the outside directors are given a genuine role in the cooperative’s leadership by making them voting directors, not just advisors.”* That quote is from page 18, which is part of Appendix A to this report.

A challenge faced by all cooperatives is that there is no way to guarantee that a board elected only from the cooperative's membership will, collectively, include individuals with meaningful experience or expertise in all the types of issues that will confront that board. This becomes more and more of a challenge as the cooperative grows in size and in its sophistication. An additional board member could be selected to bring a helpful type experience to the board, and a different perspective.

Opalco's nominating committee does consider the experience of potential board candidates, and we believe our Board has been blessed over the years with technical expertise in the energy industry and general management. But it's a pretty likely that the board of an \$30,000,000 investor owned electric company would have a different profile than that of Opalco's Board, because an investor owned utility would recruit the best possible board from a larger pool. A cooperative board should be different in its orientation to the member/customer, but ideally a cooperative's board also would have a skill set as broad as that of its investor owned counterparts.

We believe directors selected for their expertise could help the elected directors. The most important thing any board does is select the organization's manager. It would be a mistake to expect that a director's expertise would "help" the manager manage – that's not the board's role. However, any board needs some members with management expertise to help evaluate recommendations from management, such as budgets, strategic plans, communications (including perhaps crisis management), potential litigation traps (regulatory issues, antitrust, HR issues, etc.), executive compensation -- and more. The ideal, "best possible board" would include at least one director whose expertise will help the other directors evaluate each of those types of issues. Some of the elected directors will have expertise in some of those areas, and they can select other directors to help cover the other key issue areas.

This could help management. The type of director that an investor owned electric company might select is likely to have a background more like that of Opalco's management, than like the background of most directors elected from the membership. Adding more of that type of background to Opalco's Board might help facilitate communication and discussion between directors and management, and in some situations could help management present technical issues to the board and to the membership. The perspective of a "neutral" outsider with technical expertise could be particularly helpful in explaining issues that are controversial among the members.

This concept also should help members, who as owners of the cooperative would benefit from the success we should expect from a more diverse board of directors. A good appointment potentially could help the Board and management work together more efficiently and toward more optimum results. A cooperative typically has some members who feel the elected board is "too close" to management, and that concern can be mitigated if an experienced appointed director has sufficient credibility to reassure members that good decisions are being made.

Coupled with the non-member director issue is the separate question of how many directors Opalco's board should have. We understand that there have been 7 directors for a very long time. If one of them becomes ill, or turns out not to take an active interest in an issue, the board loses 15% of its collective thinking. Are nine heads better than seven? The Committee notes that many corporate boards choose to have more than 9, which suggests 9 is a workable number.

This is a great opportunity for members to discuss both the size of the board, and whether they favor the appointed expert director concept. We do recommend this concept, and are willing to help explain it to Opalco's membership.

Recommendation #6 – Review Director Compensation

During the Committee's review of the Bylaws, we noted that Section III.5 allows director compensation on a per-meeting basis, but not on a fixed monthly basis. Our ensuing discussion led us to recommend that the Board conduct a broad review of director compensation, to ensure the fairness of the compensation for the work expected, and to ensure that inadequate compensation is not a barrier to attracting outstanding director candidates. We were not charged with recommending what compensation is appropriate, but we feel obliged to publicly advocate a periodic review of director compensation, and to explain why it is important to the process of electing a successful board.

We recognize that cooperatives and other non-profits have a cultural tradition that board service is more of an honor or a duty, than a fee for services. We respect that tradition, but feel that when a director spends more time in service to our cooperative than the rest of us spend, then the rest of us collectively owe that director fair compensation for the time spent on our behalf.

In addition, we expect that fair compensation also will help encourage highly qualified individuals to run for the board. To help determine the extent to which compensation is a factor in decisions to run for the Board, we recommend that the members of past years' Nominating Committees be asked for their thoughts. Going forward, we recommend that Opalco directors' reported (Form 1099) compensation be detailed or summarized in the annual report (as it would be with public companies) for members' information and for use by the Nominating Committee. Publicizing directors' compensation may help interest candidates.

The Committee fully understands how difficult it is for boards of cooperatives and other types of non-profit organizations to deal with their own compensation, because it can become controversial among members. We note that similar concerns among our State legislators led to the appointment of a standing Citizens' Commission to periodically review and set salaries of state elected officials, and many municipalities do something similar. This Committee believes that most Opalco members recognize that attracting a good board is very important, and that investing in a

strong board could pay for itself just in mistakes not made. We believe that a transparent and well explained compensation review is very likely to receive substantial member support.

If a review of director compensation indicates that some portion of the compensation should take the form of a fixed monthly amount, then we recommend amending Section III.5 accordingly.

Recommendation #7 – “Housekeeping” Changes to Bylaws

During the Committee’s review of Opalco’s Bylaws and other documents this Committee reviewed, we felt the following items were worth noting. We feel most of these recommended changes mostly fall in the “housekeeping” category, and suggest that it will be member-friendly and support the elections process to clear up the confusion or other issues we have identified.

1. The Committee reviewed the provisions of “Board Policy 1” related to elections. We feel this is the Board’s document, and any changes should be made by the Board. But we do recommend clarifying the provisions relating to confidentiality of information and what questions can be answered for members, with particular attention to ensuring that these provisions do not impose a burden that would unnecessarily discourage someone from becoming a candidate for the Board.
2. No comments were noted regarding the “election neutrality” document for employees.
3. Opalco is organized under Washington’s “Nonprofit Miscellaneous and Mutual Corporations Act” (google “RCW 24.06”). It requires that the initial Articles of Incorporation identify the number of directors and the initial board of directors. That provision is the only aspect of Opalco’s Articles which seems to relate to our review. Note that RCW 24.06.025 specifically authorizes changing the number of directors by Bylaw amendment, rather than using the more cumbersome process required to amend other aspects of the Articles.
4. Our remaining comments cover the provisions of the Bylaws that pertain to elections.
 - a. Bylaw Section II is entitled “Meeting of Energy Members”.
 - Housekeeping Suggestion: Since both the annual meeting and special meetings are covered, this should be retitled “Meetings of Energy Members.”
 - b. Sections II.1 and II.2 provide for Annual and Special Meetings of the Membership. We have no comments.
 - c. Section II.3 establishes notice requirements for member meetings. The title references “System Members’ Meetings”. This may be a typo, or an obsolete reference to earlier Bylaw terminology.
 - Housekeeping Suggestion: Change title to “Notice of Energy Members’ Meetings.”

- d. Section II.3 also provides for notice of member meetings be sent out from 10 to 50 days prior to the meeting. This timing does not synch up with Section III.3.b, which provides that if absentee ballots are used, they must be sent out 10 to 35 days prior to the member meeting.
 - See the discussion in Recommendation #4 regarding a 2-notice system.
- e. Section II.3 only requires that notice of a meeting may be given “personally, by electronic transmission, or by mail”, and that formal notice need be given only once. As a matter of governance, that is probably fine. But as a policy matter, the Committee recommends that meeting notices continue to be given through all potential communications channels (news releases, billing stuffers, etc.).
 - See Recommendation #4 regarding a 2-notice system.
- f. Section II.4 requires that there be a quorum of 100 members actually present at the meeting at which directors are elected.
 - Housekeeping Suggestion: The Board may want to provide that participation by absentee ballot counts against the quorum, rather than requiring 100 in person. Or, alternatively, lower the figure from 100. This could be especially important in the event of a “Special Meeting”.
- g. Section II.5 provides (in the last sentence) that “Issues submitted to the energy membership for vote will be objectively stated and as free from bias as possible.” The language does not distinguish between the Voting Guide and the official Ballot. The Committee agrees with those goals, if they refer narrowly to the way a resolution must be worded. However, the Committee is concerned that the reference to bias might be interpreted to prohibit pro, con, and rebuttal statements and recommends that such statements be specifically provided for in the Bylaws.
 - See Recommendation #1, regarding the Voting Guide.
- h. Section II.5 also provides that each “member” shall have only one vote, and provides that only one vote can be cast by “a married couple” even if both are present. Of course this issue is automatically addressed when absentee balloting is used, because only one ballot is sent out.
 - Housekeeping Suggestion: Work with legal counsel to update this Bylaw to give similar treatment to domestic partners, roommates, relatives, etc. Perhaps it would be sufficient to simply require that “only one vote may be cast on behalf of a membership”.
- i. Bylaw Section II.6 provides in the first sentence of the 2nd paragraph that “an exact copy of all motions or resolutions” shall be sent out with the meeting notice. This apparently is to be the ballot, but that is not stated. Another confusion is whether “all motions” to be voted on would include the “Ballot for Directors” discussed in Section III.3(b), which seems to describe separate provisions for voting that ballot. The subsequent language allowing electronic balloting is confusingly mixed in with the requirement to return a ballot in an

envelope addressed to Opalco. More concerning is that the language requires that a vote be cast on “each” item to be voted on, which if interpreted literally would preclude abstentions and/or require that a ballot be tossed out if the member chooses not to cast a vote on all items.

- Housekeeping Suggestions: This paragraph would be clearer if it read that *“The Secretary shall enclose with the notice of such meeting a Mail Ballot containing an exact copy of all motions or resolutions to be acted upon. In the event of an election of directors, the notice shall include a list of all candidates . . .”* and then later *“. . . vote thereon by either voting electronically following the written instructions provided by the Cooperative, or voting by absentee Mail Ballot in accordance with instructions provided by the Cooperative”* (and delete the detailed instructions from the Bylaws). If written instructions are sufficient for electronic voting, they also should work for absentee ballots without specifying the procedures in the Bylaws. If it is felt appropriate to specify in the Bylaws (rather than the instructions) the date for returning ballots, then confusion can be prevented by establishing both the date **and hour** (ie, *“no later than by 10:00 am of the day before the annual or special meeting”*).
 - Comment: The Committee endorses the recent practice of using an outside election vendor to count the ballots and provide the electronic voting alternative. Their needs should be considered in any of these changes.
- j. Section II.6 also provides (in the final paragraph) that *“If a married couple holds a joint membership . . . they shall be entitled to vote by absentee ballot.”* The Committee questions whether this is needed, and is concerned that it raises issue of comparable treatment for domestic partners, roommates, relatives, etc.
- Housekeeping Suggestion: The Board should consider simply eliminating this sentence.
- k. Sections II.7 & II.8 – No comments.
- l. Section III.1 establishes a 7-member Board of Directors.
- See Recommendation #5, regarding the option to add two appointed directors.
- m. Bylaw Section III.2 establishes four director districts, from which the 7-person board of directors shall be residents. Typically, where an organization uses districting, its Bylaws specify the number of directors from each district or establish a procedure for determining how many directors shall represent each district. Opalco’s Bylaws apparently did this until 1998, at which time they were revised to provide that when a director’s term expired, a new director would be elected from the same district. This is sufficient to guide the elections process, but can be confusing to the membership.
- Housekeeping Suggestion: The Bylaws should clearly state how many directors shall be elected from each district or at large.
 - See Recommendations #1 and #2, regarding strengthening the election district system, transitioning to a 3-district system, and electing 5 of the 7 directors by district.

- n. Section III.2 establishes three eligibility requirements. The Committee supports two of them: a director candidate must not be employed by Opalco, nor have an employment or financial relationship with any business which competes with Opalco. The Committee does not understand the rationale for the third requirement, which denies eligibility to a candidate who has run within the past three years; this makes a bit of sense under the current election procedure, but it would become more important, and less understandable, if at large board positions are created (as this Committee recommends).
- Possible different approach: The Opalco Board has a compendium of policies (See Policy 1, Section 5). That document could be expanded to include a comprehensive conflict of interest policy, rather than use Bylaw language. Then, the Bylaws could be modified to simply require that all candidates must meet the Qualifications and Conflicts of Interest policies established by the Board. See the discussion in Recommendation #3, regarding director qualifications.
 - Housekeeping Suggestion: The requirement that a director not be employed by “the Cooperative” should be clarified to include “the Cooperative **or any subsidiaries of the Cooperative.**”
 - Housekeeping Suggestion: The Board should eliminate the 3-year requirement. Administrative Suggestion: The Board amended this Bylaw provision last May, to eliminate the language restricting candidacy by a member who sells electrical or plumbing appliances. The Candidate Disclosure Form will have to be updated to reflect that change.
- o. Section III.2 also provides (last paragraph) that the qualifications just mentioned must apply to both the candidate and any spouse. The committee respects the intent, but suggests that legal counsel should be asked whether this violates the state laws against discrimination based on marital status (especially inasmuch as it ignores similar potential conflicts of interest for domestic partners, children, and other relatives).
- Housekeeping Suggestion: We repeat the alternative suggested above, of simply requiring that the candidates must observe and comply with a comprehensive conflict of interest policy established by the Board (which preferably would be in the Bylaws but could be in the Board’s Policy Statement).
- p. Section III.3(a) establishes a Nominating Committee. The Committee agrees that “No officer or member of the Board” should serve on the Committee.
- See Recommendation #3, urging consideration of former board members for the Nominating Committee; it may be useful to clarify that “a former member of the Board may serve”.
 - Housekeeping Suggestion: The Bylaw should be amended to provide that “no employee of the Cooperative **or its Subsidiaries**” may serve on the Nominating Committee.

- Comment: The Nominating Committee should be given staff support, and providing that support under the direction of the Committee should not be prohibited. We recommend clarifying this provision, accordingly.
- q. Section III.3(a) also establishes a timeline for the Committee’s work.
- See Recommendation #4, discussing the Committee’s recommendation to change this time frame from 100 days and 70 days, to 110 days and 80 days, to permit additional time after the Committee nominations are published for filing a nomination by petition.
- r. Section III.3(a) also provides that members who are not nominated by the Nominating Committee may be nominated by a petition of 15 members from the district.
- See Recommendation #4, discussing the Committee’s recommendation to increase the number of petitioners from 15 to 20.
 - Housekeeping Recommendation: We believe that the eligibility requirements to hold a director position apply whether the nomination is by Committee or by Petition, but if not clear then this should be clarified. For example, “Any 15(20) or more members may make other nominations of qualified members from their particular district, by petition . . . “. In the event at large voting is adopted, then the petitioners could be from any district.
- s. Section III.3(a) requires that the Nominating Committee’s nominations be posted on the web site and published in the newspaper. The Committee understands that publishing the nominees as a legal notice is deemed appropriate by RUS, and so does not question the merits of publication. However, the language is confusing, first requiring that the nominees be posted on the web site, and then saying that it may be posted on the web site as an alternative to publication in “the local newspaper(s) which carries legal notices”.
- Housekeeping Suggestion: Provide for both in the Bylaws.
 - Housekeeping Suggestion: If RUS approves, consider replacing publication as a “legal notice” (which the Committee feels will not be widely read) with publishing the nominees “in a large format advertisement in the newspapers which serve the various Islands in the Cooperative’s service area”. Alternatively, do both.
- t. Section III.3(a) requires that the Notice of Meeting identify the directors to be elected from each district “showing separately the nominations made by petition, if any”. Section III.3(b) then provides that the ballot also shall identify those nominated by committee and those nominated by petition.
- See Recommendation #1, discussing the Committee’s recommendation to make this distinction in the Voting Guide but not on the ballot.
- u. Section III.3(b) provides for “Election of Directors”. It provides that a “Ballot for Directors” be mailed to all members 10 to 35 days in advance of the membership meeting at which the election is to be held.

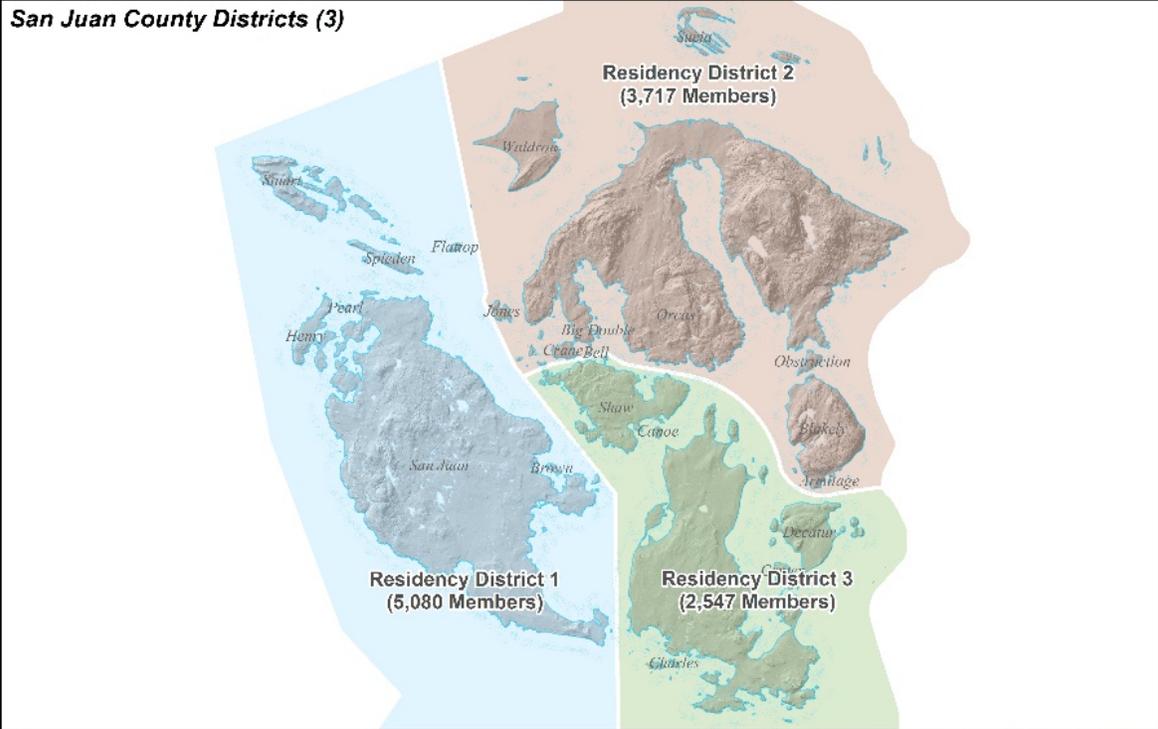
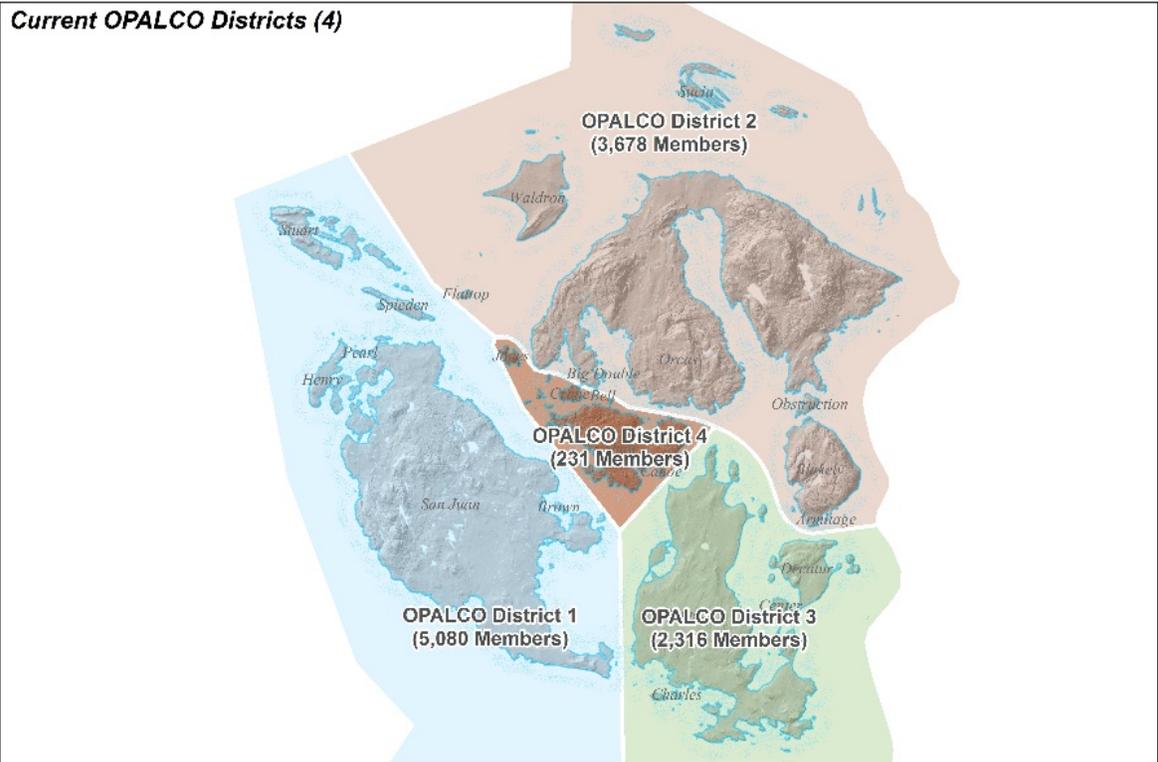
- Housekeeping Suggestion: It is confusing to separate these ballot requirements for directors (in Section II.3(b)) from those involving other types of absentee balloting (Section II.6). In fact, a literal reading of the Bylaws suggests that the ballot for directors must be separate from an absentee ballot on a resolution (which makes no sense). This Committee recommends restructuring Section II.6 to cover both, and then modify this Section III.3(b) to refer back to that earlier section.
 - See Recommendation #4, discussing the Committee’s recommendation to alter the time periods.
- v. Section III.4, dealing with board vacancies, appears to have a typo: “shall serve for an unexpired portion of the term or **tell** his or her successor shall have been elected . . . “
- Housekeeping Suggestion: Change “tell” to “until.”
- w. Section III.5 provides that Directors shall not receive a salary, but shall receive a fee for attendance at “meetings”.
- See Recommendation #6, recommending that as the Board determines director compensation, they should have flexibility to use salaries if they see fit.
- x. The Committee has reviewed Sections III.6, III.7, III.8, & III.9. We have no comments.
- y. Section V.11 also deals with compensation, and provides that the compensation of any employee of Opalco who is a director or a close relative of a director shall have their compensation set by the members. We note that this conflicts with the director qualifications in Section III.2 (next to last paragraph) which provides that no director or spouse of a director can be employed by the Cooperative.
- See Recommendation #3, recommending that this section be deleted and replaced with a general review of conflicts of interest and disclosure requirements.

Conclusion

The volunteer members of the Elections Review Committee appreciate this opportunity to be of service to our cooperative. We are enthusiastic about the potential of these recommendations to positively impact our cooperative. We urge the Opalco Board of Directors to give them serious consideration, and we offer our continuing support for that process.

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Appendix A – Comparison of Opalco District and County Council District Maps



Date: 9/1/2016

Document Path: V:\MISC Projects\OPALCO Districts\OPALCO District Map.mxd

Appendix B - Questions and Answers regarding Appointed Non-Member Directors

Opalco's Elections Review Committee proposes a discussion within the cooperative about whether to add up to two more directors to our 7-member board, who would need not be a member and who would be appointed by the Board based upon their experience in a field that the elected directors might feel would be helpful. Such "outside directors" would provide Opalco's Board a broader base of experience than might be available if we draw only from members who are willing to serve.

1. Is the concept of a non-member director consistent with cooperative governance? Yes! The time-honored Rochdale cooperative principles include member control, but do not suggest that members make all decisions. USDA's RBCS Cooperative Information Report #60 highlights the concept of "outside directors" (p. 18 is attached). Example: the Ocean Spray cranberry marketing cooperative has two non-member directors. There is no conflict with the state law under which Opalco is organized, nor with Opalco's Articles of Incorporation, nor with the operating requirements for a cooperative under the Internal Revenue Code. The existing Opalco policy which requires directors to attend cooperative education courses help every director learn more about cooperative principles.
2. Would an outside director have a 3-year term? They could. But the Committee discussed annual terms, so that the elected Board can make changes if a director is not working out, or if another area of expertise is felt to be more valuable.
3. Should such directors be elected by the members, or by the Board? Either way could work, as long as the Board determines the types of expertise that are needed. Many Boards (including Opalco's) are empowered to fill vacancies between elections. Drawing on that concept, the Committee recommends the member elected Board should recruit and select individuals whom they can work with, and who possess a skill set that would help their decision making. Also, it would be more difficult to recruit a director if the job were subject to member election.
4. How much would an appointed director cost? The Committee recommends they should be compensated similarly to the elected directors, with the option of an additional amount if the Board feels that is necessary to attract qualified candidates. We recommend researching cost before formally presenting this concept to the membership, because members will want some idea, in order to evaluate whether the additional cost justifies the potential benefit of additional experience.
5. Would a 9-member board be unmanageable? Many corporate boards choose to have more than 9.
6. Would this require an Amendment to our Articles of Incorporation and Bylaws? State law allows expansion of our board by Bylaw Amendment, without amending the Articles.
7. Where is meant by an "outside" director? Many large companies have both inside directors (full time employees, such as the president and chief financial officer) and outside directors (who typically work for other companies and are not involved in day to day management). Outside directors are typically picked for their expertise and their independent perspective. Examples: Boeing has brought in former Secretaries of State, to help understand the global environment in which they operate. The CEO of Apple is also an outside director for Nike, where he chairs the Compensation Committee that sets inside director salaries. The 12-member board of Puget Energy (our state's largest electricity utility) includes 2 who work with other energy companies.
8. Would this make Opalco "too corporate"? It should not change the nature of our cooperative, but it should provide a broader base of experience that will help Opalco be well run in the years ahead.

MEMORANDUM

September 9, 2016

TO: Board of Directors

FROM: Foster Hildreth

RE: PNGC Discussion and Presentation

As an extension to the Integrated Resource Plan and BPA power purchase contract (which is up for renewal in 2028), it is important for us to plan for our future energy needs. The board decided to join Pacific Northwest Generating Cooperative (PNGC) in February 2016 to jointly serve our power resource needs along with the 14 other member electric cooperatives.

As new members of PNGC, Staff requested Beth Looney, CEO, attend the board meeting to provide PNGCs outlook and perspective on the future of power resources for our region and other services PNGC will be providing for OPALCO. Ms. Looney has requested this presentation be held during executive session due to the strategic nature of its contents.

MEMORANDUM

September 9, 2016

TO: Board of Directors

FROM: Foster Hildreth

RE: Rock Island Governance Discussion

The Rock Island Communications (RIC) governance structure was set up to be successful in a competitive, for-profit retail environment. The board has requested staff to outline a roadmap to review the RIC governance. The topics for review include:

- Competitive Nature of Broadband Industry
- Governance Structure Alternatives
- Meeting Protocol
 - Independent from OPALCO
 - Open vs. Closed
- Disclosure of Competitive Information
 - Reporting Level to OPALCO as parent
 - Level of Disclosure of Competitive Information
- OPALCO Member Input

In addition, Staff would like to have interim reporting guidance until such time as we develop a long term governance and reporting strategy.

GENERAL MANAGER'S REPORT

September 2016

PNGC

Staff met with PNGC load forecasting staff at our Eastsound Office to discuss our forecasting process and how PNGC may aid in projecting OPALCO's loads and power costs for the coming years.

PNGC's annual meeting is planned for October 3-4 in Portland (travel dates extend to October 2-5). To date, Hildreth and three board members are planning to attend (Silverstein, Dauciunas and Adams).

DASHBOARDS

Please review the dashboards at <https://www.opalco.com/dashboards/>. Please note that all the dashboards are within board strategic parameters. The outage dashboard is still a work in progress due to conversion of outage management systems.

ENGINEERING AND OPERATIONS

Safety

Jeff Myers conducted training on hearing conservation in correlation to the hearing testing on all available employees conducted by DISA. This training and testing is conducted annually to track any damage to hearing and inform the employee of potential activities which damage hearing. There were no accidents, incidents or near misses in August.

	August 2016	YTD (2016)
Near Misses	0	0
Incidents	0	1
Accidents	0	1
Loss Time	0	0

The total hours worked without a loss time accident is 30,242.

COMMUNICATIONS

Election Review Process

The Member Review Committee has completed their work and presents their findings, a set of seven recommendations, to the Board at the September 16th meeting. The next steps are:

- September 16: Board review and discussion with committee members
- October 7-11: Member review and comment at Open House events
- October 20: Board review of member feedback and decision making

Open House Events

Staff is coordinating a series of four open house events in October to accomplish two goals: 1) Get member feedback on the seven recommendations on changes to the election process and 2) Report on the progress of Rock Island Communications. Board members are encouraged to attend as many of these as possible.

Schedule of events is:

Thursday, October 6:	Lopez Woodmen Hall	5–6:30pm
Friday, October 7:	Friday Harbor Grange	3–4:30pm
Monday, October 10:	Shaw Community Center	2–3:30pm
Tuesday, October 11:	Orcas Senior Center	5–6:30pm

ROCK ISLAND COMMUNICATIONS

Summary of Startup Operations

As of the end of July, the year-to-date (YTD) revenues are 4% below plan and YTD operating expenses are 12% above plan. As more infrastructure is deployed, RIC expects to meet annual goals.

Fiber Optic Subscribers

The current fiber subscriber counts are at 93% of planned. There are 68 fiber construction projects in progress. Based on the current committed customer pipeline, fiber subscribers and revenue will meet year-end goals.

LTE Wireless Subscribers

Of the 38 planned LTE sites, 19 are actively serving customers, 10 are under construction and 9 are in the planning stage. Several new poles will be activated over the next six weeks. LTE subscriber counts are 15% below plan; however, LTE revenues are 16% ahead of plan.

Recent Email Event

RIC encountered significant server issues affecting over 600 customers. This is primarily an email issue for those subscribers holding "@rockisland.com" or hosted email addresses. RIC staff worked around the clock rebuilding software configurations to get the system back up and running. Please note that this was an email and hosting issue only and did not impact the balance of RIC services for fiber or DSL connectivity, LTE services, T-Mobile cellular services or backbone systems. The affected systems have been stabilized and efforts are underway to accelerate hardware & software upgrades for a long-term solution.

RIC offers their sincerest apologies for the frustration and hassle this has caused to email and website hosting customers.

MEMORANDUM

September 9, 2016

TO: Board of Directors

FROM: Foster Hildreth, General Manager

RE: Informational Items

As additional information for the WA I-732 topic above we have also received positions from WRECA and Member, Scott Finley, as seen below.

I-732 positions:

WRECA – Opposed

Excerpted from the July 2016 Update

The WRECA Legislative Advisory Committee met in May 2016 “Other items on the agenda included discussions about the voter initiatives for the 2016 ballot that would impose a tax on carbon emissions in Washington. While the primary initiative, 732, has a lot of opposition statewide, the committee decided that it would be prudent to vigorously oppose I-732 to make sure that it would not become law.”

Lopez member Scott Finley – In Favor

Scott Finley sent the following email, requesting the Board’s endorsement of I-732:

Citizens’ Initiative 732 will be on the November ballot. This measure proposes to institute a carbon tax of \$25 per metric ton CO2 on fossil fuels consumed in the State of Washington. The revenue generated will be used to reduce state sales tax by 1% and provide additional rebates and tax relief, thus making it a revenue neutral tax. Since the vast majority of power supplied to public utilities by BPA is produced from non-fossil fuel sources, OPALCO customers are likely to actually benefit financially. More specific information can be found at www.yeson732.org.

*I believe I-732 is completely consistent with OPALCO’s stated goals of helping members and the Islands communities move toward a more sustainable and resilient energy future. As the highly respected Sightline institute <http://www.sightline.org/201critiques-of-carbonwa-i-732/> stated in a recent report: ‘I-732 would give Washington the continent’s, if not the world’s, most potent persistent, and comprehensive **incentive to move swiftly beyond dirty fossil fuels** and to a carbon-free future.’*

Last year over 5,000 signatures were gathered in San Juan County to help qualify I-732 for the ballot. This is a phenomenal number given our population, and shows the level of support the initiative has here. I or a representative from CarbonWA, the group that originally drafted the measure, would love to have the opportunity to address the Board at the next meeting and make a case for Board endorsement of I-732.

MEMORANDUM

September 9, 2016

TO: Board of Directors
FROM: Foster Hildreth
RE: Member Communication

The following member correspondence was received this past month:

1. Robert Philpott RE: Lopez Submarine Cable Project

1. Email to Joel Mietzner, System Engineer, received September 1, 2016

Subject: Lopez Is pipeline work Spring/Summer 2016

Hi Joel - we want to let you and everyone involved with the pipeline work on Lopez Is this past spring and summer what a GREAT team of workers were on the job.

Everyone was extremely professional, no swearing, bad attitudes or manners -- in fact, quite the opposite. Although there were other workers, Kevin, Curt, and Andrew were the guys we saw nearly every day. We want you and their management teams to know how impressed we are with their work and their immense patience as they attempted to address any and all of our concerns, especially regarding our nesting birds. Curt and Andrew repeatedly went out of their way to assist us in any manner possible regarding some of the disturbances that couldn't be avoided for the pipeline ditch. Andrew would even look for opportunities to help during short intervals while pausing for interruptions of his tasks. Wow!

We just can't give enough praise for these guys and for the work that has been done to date. Thank you for keeping us well informed of all work required and for having an outstanding team of workers onsite for the project that went along our properties at 67 Payne Ln and 601 Bayshore Rd on Lopez Is.

Thank you,
Robert Philpott