



## BOARD OF DIRECTORS REGULAR MEETING

Wednesday, November 15, 2017 9:00 a.m.  
Eastsound OPALCO Office

### TRAVEL



#### ***Via Island Air***

378-2376

#### **To:**

Leave FH 8:15 a.m.

Lopez 8:30 a.m.

Arrive ES 8:45 a.m.

#### **Return:**

Leave Eastsound 3:00 p.m.

Arrive Lopez 3:15 p.m.

FH 3:30 p.m.



#### ***Via Ferry:***

#### **To:**

Leave FH 6:10 a.m.

Lopez 6:55 a.m.

Shaw 7:15 a.m.

Arrive Orcas 7:35 a.m.

#### **Return:**

Leave Orcas 3:10 p.m.

Arrive Shaw 3:25 p.m.

Lopez 3:45 p.m.

Leave Orcas 4:30 p.m.

FH 5:10 p.m.

**Orcas Power & Light Cooperative  
Board of Directors  
Regular Board Meeting  
Eastsound  
376-3500**

**Wednesday, November 15, 2017      9:00 a.m.**

**PAGES**

**WELCOME**

- Video Recording Acknowledgement:
  - *Members attending the board meeting acknowledge that they may be recorded and the recording posted to OPALCO's website.*
- Member Comment Period:
  - *Members are expected to conduct themselves with civility & decorum, consistent with Member Policy 17. If you would like answers to specific questions, please fill out the Q&A card for post meeting follow-up.*

**ACTION ITEMS**

- 3-7**      ○ Consent Agenda
- 8-10**    ○ Policy 29 *Rate Design* (Final Read)
- 11**      ○ Excess Margin Treatment
- 12**      ○ Capital Credit Application to Associated Uncollectible Accounts

**DISCUSSION ITEMS**

- 

**REPORTS**

- 13**      ○ Q3 Financials
- 14-15**    ○ General Manager

**COMMUNICATIONS**

- None

**ADJOURNMENT**

Executive Session: Legal, personnel

## MEMORANDUM

November 9, 2017

TO: Board of Directors

FROM: Foster Hildreth

RE: Consent Agenda

All matters listed with the Consent Agenda are considered routine and will be enacted by one motion of the Board with no separate discussion. If separate discussion is desired, that item may be removed from the Consent Agenda and placed as an Action Item by request of a Board member. The minutes will reflect the approved consent agenda.

The Consent Agenda includes:

- Minutes of the previous meeting(s)
- Approval of new members {as required by Bylaws Article I Section 2 (d)}
- Capital Credit payments to estates of deceased members and/or organizations no longer in business

Staff requests a motion to approve the Consent Agenda.

**Orcas Power & Light Cooperative**  
**Minutes of the Board of Directors Meeting**  
**Wednesday, October 18, 2017**

President Vince Dauciunas called the meeting to order at 8:50 a.m. at the Friday Harbor OPALCO office. Board members present were Winnie Adams, Randy Cornelius, Jim Lett and Jerry Whitfield. Board members absent were Mark Madsen and Brian Silverstein. Staff present were General Manager Foster Hildreth; Manager of Engineering and Operations Russell Guerry; Manager of Finance and Member Services Nancy Loomis, and Executive Assistant Bev Madan (serving as recording secretary).

President Dauciunas read the following statements to those present: *"Members attending the board meeting acknowledge that they may be recorded and the recording posted to OPALCO's website. Members are expected to conduct themselves with civility & decorum, consistent with Member Policy 17. If you would like answers to specific questions, please fill out the Q&A card for post meeting follow-up."*

**MEMBER/GUESTS**

Consultant Jay Kimball.

**CONSENT AGENDA**

- Motion was made to accept the Consent Agenda which included the September 21 minutes, new members (listed below), capital credit payments totaling \$6,275.48 and RUS 219s totaling \$786,543.64. Motion was seconded and carried by voice vote.

**New Members**

**District 1**

**Brown, Pearl, Henry, San Juan, Spieden**

Allen, Mark  
Bellhart, Elspeth  
Bennett, Monica & Jeff  
Carlson, Mitchell  
Colglazier, Katlynn  
Douglas Hickman, Lana  
Ewers, Robert & Tana  
Greenberg, Lou  
Guerrero, Maria A  
Hauschild, Joy  
Hess, Carl  
Hills, Kyle  
Johnson, Lars  
Johnston, Melvin & Castleman, Linda  
Leeming, Frank A & James-Slusher, Hannah  
Metts, Angela L.  
Morelli, Dina  
Pawloski, Ryan  
Rebhan, Bruce & VanCamp, Joy  
Rugge, Ashley  
Senn, William & Leslie  
Sommers, Amy & Kenneth  
Steel Breeze LLC  
Stevenson, Jon  
Sunbreak Roving Vet Service  
Tikunoff, James & Abigail  
Treehouse5 LLC  
Vonderhaar, Becky & Chris  
Williamson, Janet  
Youngsman, William  
Zack, Adam

**District 2**

**Armitage, Blakely, Obstruction, Big Double, Little Double, Fawn, Orcas**

Albertson, John & Mary  
Ballou, Laurel J  
Beeman, Jeffrey & Doty, Elizabeth

Blackburn, Jack  
Davidson, Valorie & Maki, Robert  
Day, Talya & Shively, James  
Floyd, Stephen G  
Fry, Sandra  
Gordon, Michael  
Griffin, David & Kimberly  
James, Monica & Scott  
Ledgerwood, E  
Lefever, Sachi  
Lift Strength and Condition  
Marie, Kathryn  
Millen, Samuel  
Nawn, Rodney & Natalie  
Neitman, Kristine  
O'Brien, Wendy  
Page, Shannon & Ferrari, Mark  
Rinchai, Darawan & Chaussabel, Damien  
Roepke, Meryl  
Smith, Roy  
Sorensen, Rachel & Boydston, Galen  
Spaulding, Benjamin  
Webster, Paul  
Wiper, Kara & Jeff

**District 3**

**Decatur, Center, Charles, Lopez**

Crow, Sasha  
Estep, Alan & Susan  
Fagerholm, Paula & Jeff  
Gaddis, Mel & Ferrouge-Gaddis, Annette  
Huxtable, Caroline & Leighton, Andrew  
Johnson, Robert T  
Kisker, Danielle & Douglas  
Lewis, Kendra & Henderson, R. Keith  
Puglisi, Anthony & Pamela K  
Romney, Elizabeth & Giles, James  
Smith, William C  
Weeks, Tom & Oyer, Deborah

District 4  
Crane, Canoe, Bell, Shaw  
Gulick, George  
Sussman, Django & Wainstein, Michell

Capital Credits – Customer Estates/Organizations Retired

<u>Customer #</u>	<u>Amount</u>
65066	\$1,351.22
68293	\$ 850.37
28168	\$4,073.89

IRS Forms 990 and 990-T

The Board met in Executive Session to review the IRS Forms 990 and 990-T. The 2016 returns are consistent with the 2015 filings and are based on the 2016 financial statements which were audited by Moss Adams. The audited statements were reviewed and approved by the Board of Directors at the May 18, 2017 meeting. After discussion, the regular meeting resumed.

- **Motion** was made and seconded to approve filing the 2016 Federal Tax Return Form 990 and Form 990-T. Motion was carried by voice vote.

Policy 29 Rate Design Draft Revisions (first read)

Policy 29 was redrafted to memorialize the board discussions that occurred the 2017. The finalized version will be submitted for approval at the November Board meeting. The policy will likely be further reviewed and revised upon completion of the rate structure process in 2018.

REPORTS

General Manager

- Safety: Total hours worked without loss time is 14,147.
- Submarine Cable Update: Cable removal was completed on September 24, 2017. The new cable installation was completed on October 4. All splicing will be completed by the end of October with estimated energizing to occur in December and project close-out through the beginning of 2018.
- Decatur Community Solar Bids for the design and array are due in October, after which they will be reviewed by a committee of staff and member-experts. The project is on schedule to be completed in Summer 2018.
- Decatur Energy Storage System Project: OPALCO has contracted with Washington Department of Commerce (WA DOC) to ensure reimbursement of the WA DOC matching grant funds. Pacific Northwest National Laboratories (PNNL) will be completing an analysis of the feasibility of the system.
- Mainland Redundancy: Staff met with Puget Sound Energy to brainstorm redundancy options for the radial feed from PSE Burrows Bay Substation to Washington Park Substation in Anacortes. Next steps are to submit a modification request to BPA; upon receipt BPA will conduct a feasibility study.
- Projected Finance: The Board requested options for the return of excess revenues prior to end of year. This return would account for the needed margin to cover the payout of capital credits and maintain the appropriate equity per strategic directives.

ADJOURNMENT

Meeting adjourned at 10:44 am.

Vince Dauciunas, President

Winnie Adams, Secretary-Treasurer

## **NEW MEMBERS**

October 2017

### **DISTRICT 1**

**Brown, Pearl, Henry, San Juan, Spieden**

1. CHRISTISON, MAXINE M
2. DUTTON, MERRIL
3. GRAMER, CHRIS
4. GUIDRY, WADE
5. HISER, GREGORY
6. HOYT, JONATHAN
7. JFT INVESTMENTS LLC
8. JUDD, DONALD & NANETTE
9. KSD CONSTRUCTION INC
10. MERCER, GERALD & DEBRA
11. OGLE, JON & SATIN, MACKENZIE
12. OLDWYN, COURTNEY
13. STABLEY, SUE ANN
14. THOMASON, WILLIAM A & KRISTI
15. WARD, JARED
16. WARREN, DEBORAH & RICHARD

### **DISTRICT 2**

**Armitage, Blakely, Obstruction, Big Double, Little Double, Fawn, Orcas**

17. BALMAIN, MAXWELL
18. BLOCKSOM, TIMOTHY & BEVERLY A
19. BROWN, TODD R & S.J. EMMA
20. CARHART, JANE
21. DURAND, JAMES & DEBORA
22. FINN, RACHEL
23. GIBSON, DEBORAH
24. GILINSKY, NORMAN & TEMPLETON, SUSAN
25. KRAMER, PHILIP & GAINEY, ERIN
26. MARLOW, JANET & WILL
27. MATERIAL WIT
28. MIKULAK, KATHRYN & DUFFY, NATHANIEL
29. MORIARTY, VANESSA
30. MURRAY, CAROL
31. NEWTON, LUKE & VANDERWARKER, AMY
32. NIMMO, KRISTEN
33. PELLIGRINELLI, DAVID
34. PLESZEWICZ, KRISTOFER

35. RILEY, KATIE
36. SPRENGER, AMY & COENELIUS
37. STONER, BRAD
38. TAYLOR, JAMES & JENNIFER
39. WILSON, ANDREW
40. WRIGHT, STEPHANIE

### **DISTRICT 3**

**Decatur, Center, Charles, Lopez**

41. CATHERINE WASHBURN MED AS.
42. CLOGSTON, MAGGIE
43. DEVOE, GREGORY
44. FEDORKO, STEVEN
45. MINKLER, ROBYN
46. PARLIN, LARROL & ROBIN
47. PETERS, JERAMY
48. PREWITT, RYAN LEE
49. RICHARDS, DALE & ADAMS, HEATHER
50. ROLLA, LEA & CHEVARA, CARL
51. SULLIVAN, GARY & CYNTHIA

### **DISTRICT 4**

**Crane, Canoe, Bell, Shaw**

52. HINES, JASON

# MEMORANDUM

November 9, 2017

TO: Board of Directors

FROM: Foster Hildreth, General Manager

RE: Capital Credits

Staff requests payment of capital credits to the estates of the following deceased members and/or to organizations no longer in business by way of approval of the consent agenda:

Decedent Customer #	Amount
65388	\$ 1,360.10
61482	\$ 627.71
84262	\$ 132.59
Request Total	<u>\$2,120.40</u>

# MEMORANDUM

November 9, 2017

TO: Board of Directors

FROM: Foster Hildreth

RE: Policy 29 *Rate Design* (Final Read)

During the October Meeting, the Board reviewed the proposed changes to Policy 29. These changes brought the policy in line with the Board requests per the 2017 Rate Work Sessions. The Board will review and may revise this policy over the course of the 2018 Cost of Service Analysis and Rate Design.

Staff requests a motion for adoption of Policy 29 *Rate Design*.



**ORCAS POWER AND LIGHT COOPERATIVE**  
**POLICY 29**  
**RATE DESIGN**

**29.1 PURPOSE**

To set forth policy relating to the development and implementation of electric rates that follows the strategic objectives of the Cooperative.

**29.2 POLICY**

**29.2.1 Commitment to Rate Design**

It is the policy of the Board of Directors of the Cooperative to develop cost-based electric rates that allow the Cooperative to maintain financial stability as indicated through equity, TIER and loan covenants. The rate structure should collect the necessary revenue to balance: system reliability, prudent management practices, board directives for environmental stewardship and San Juan County's carbon reduction goals.

**29.2.2 Basic Fundamentals**

29.2.2.1 The Cooperative will periodically perform cost of service and rate structure studies to inform whether existing rate structures are meeting the goals of this policy and changing industry conditions.

29.2.2.2 Rates will be developed and implemented that:

29.2.2.2.1 Are cost-based and meet revenue requirements;

29.2.2.2.2 Equitably allocate the Cooperative's expenses to each member based on their use of and impact on the system relative to other members and the Cooperative as a whole;

29.2.2.2.3 Generate margins which meet long-term financial objectives and lender requirements and as per the Cooperative's strategic directives;

29.2.2.2.4 Decrease revenue volatility due to unpredictable energy usage patterns (i.e. changing weather and temperature swings).

29.2.2.2.5 Are implemented over time when dramatic rate changes occur to avoid high and sudden member rate increases;

29.2.2.2.6 Encourage wise use of energy through efficiency measures, conservation and fuel-switching to electricity from carbon based fuels (e.g. gasoline, propane, oil, wood, etc.) in order to reduce members' total monthly bills across all energy sources.

29.2.2.3 Implement an energy charge adjustment mechanism that balances the fluctuation in energy revenues on an as-needed basis. The purpose of this mechanism is to balance the Cooperative's finances. The mechanism may appear as a credit or debit on member bills.

29.2.2.4 Rate increases necessary to meet budgetary revenue requirements are to be applied per Board-approved methodology.

29.2.2.5 Member programs such as energy assistance, Project PAL and Member Owned Renewable Energy (MORE), etc. are distinct from the rate structure and are to be budgeted separately. The Board determines direction and funding mechanisms for any such programs during the annual budgeting process.

29.2.3 Management Responsibility

29.2.3.1 Management will be held accountable for implementing rates as approved by the Board of Directors and to routinely report to the Board of Directors as to the need to adjust rates to account for changes in cost or strategic initiatives.

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J. Foster Hildreth, General Manager

Effective Date: November 15, 2017

## MEMORANDUM

November 9, 2017

To: Board of Directors

From: Foster Hildreth, General Manager

Re: Excess Margin Treatment

At the October Board meeting, the Board requested staff to explore options for the treatment of excess 2017 margins. As the Board and staff have discussed throughout the year, 2017 temperatures have been colder than anticipated, resulting in revenue above the budgeted amount. Staff recommendations are as follows:

- Energy Charge Adjustment (Member Bill Credit): \$1M
  - Staff recommends that we return \$1M of the margin in the form of a bill credit pursuant to Policy 29.2.2.2.8. This credit will be distributed on a pro-rata basis, based on member's usage profiles from January through November 2017. Given the unknown weather and revenue for the remainder of the year (November and December 2017), staff has calculated that a gross credit of \$1M is a reasonable adjustment credit while maintaining budget goals and financial stability.
- Member Capital Credit Retirement Acceleration: ~\$512k additional
  - For 2017, staff recommends returning a total of ~\$941k cash (~\$429k for 1992 and ~\$512k for 1993). This represents a 100% payout of 1992 and a ~45% of 1993. Smoothing the annual general retirements produces a predictable schedule that will allow us to not only stay ahead of the 25-year retirement schedule, but also avoid fluctuations in margins, cash and equity stemming from capital credits. The above figures represent the unretired margins from those years.
- Board Restricted Funds: \$500k
  - Staff recommends the re-establishment of Board restricted funds to address unforeseen circumstances. These funds would require Board authorization for use.
- General Funds: Remainder (projected ~\$65k)

Please note, if the year-end margins are less than anticipated, the general fund and restricted funds will reduce accordingly. If margins are more than the anticipated amounts, the excess will be allocated to general funds.

Staff requests a motion to approve treatment of the 2017 excess margins, as outlined above.

## MEMORANDUM

November 9, 2017

To: Board of Directors

From: Foster Hildreth, General Manager

Re: Applying Member Capital Credits to Associated Uncollectable Accounts

Staff has transferred delinquent inactive accounts to an uncollectable account (UA) status. The next step in this process is to proportionately apply previously allocated member capital credits to UA balances.

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

Staff is requesting that \$4,315 of member capital credits be applied to UA balances. The member capital credit allocation transfers are as follows:

Capital Credits Applied to UA Balance	\$4,315
Discounted Capital Credits Remain in Equity	17,596
<b>Total Capital Credits Retired</b>	<b>\$21,911</b>

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

## MEMORANDUM

Date: November 9, 2017

To: Board of Directors

From: Foster Hildreth, General Manager

Re: 2017 3<sup>rd</sup> Quarter Financial Report

Please see attached the full 2017 3<sup>rd</sup> quarter financial report. Included in the report package are the Statement of Revenues and Margins (along with a notable driver analysis), Balance Sheet, Statement of Cash Flows (GAAP), and capital projects budget tracking.

The cold weather experienced in Q1 of 2017 is the primary driver of the overall revenue variance of +12% (\$2.3M) higher than budgeted by YTDQ3. This was partially offset by the related increase in purchased power of 13% (\$735k), though we have not seen significant peak charges from BPA. All combined resulted in an increased margin of (\$1.86M). Please note in this board report, staff will be presenting the board requested excess margin analysis. This analysis includes the potential of member bill credit, capital credit retirement acceleration and re-establishing a restricted fund (board contingency).

For more detail, please note the following key points:

- Through Q3, YTD Heating Degree Days (HDD) were up ~44% above normal budgeted levels (Actual of 903 vs. budget of 627). Actual kWh sales were 17.0M kWh above budget (150.7M vs. budget of 133.5M). We expect weather and heating fluctuations to produce dramatic sales revenue volatility, and have budgeted based on those assumptions. We will continue to monitor revenue and expenses closely.
- Q3 YTD power purchases were up \$735k due to higher kWh consumption. Actual kWh purchases were 18.8M kWh above budget (162.7M vs. budget of 143.9M).
- Excluding purchased power, Q3 YTD operating expenses were approximately \$303k under budgeted amounts.
- Rock Island Communications Q3 Financials included in separate packet.

## **GENERAL MANAGER'S REPORT**

### **November 2017**

#### **DASHBOARDS**

Please review the dashboards at <https://www.opalco.com/dashboards/>. Note that all the dashboards are within board approved strategic parameters.

#### **PNGC POWER UPDATE**

Joining PNGC allows for OPALCO to have a strong presence with BPA initiatives. PNGC is actively involved in the conversations with a host of BPA cost increases including: fish spill surcharge, power cost increase, BPA financial reserves, and residential exchange charges. Staff has also been working with PNGC staff in the development of the OPALCO 2018 budget as it relates to purchased power cost and forecasting of loads.

PNGC has been active in the energy arena. Beth Looney, President and CEO of PNGC, testified in front of the US Congress in support of protecting the federal hydro system (H.R. 3144). The large amount of litigation against the federal hydro system is creating a negative impact on the rate trajectory on northwest customers. This translates to steadily and unsustainably rising rates.

The House Energy and Commerce Committee voted to modernize hydropower licensing by introducing H.R. 3043 which includes in the definition of renewable energy, allow Federal Energy Regulatory Committee (FERC) to extend a preliminary construction permit, and designate FERC as the lead agency for hydropower permitting, including developing a schedule for licensing. We encourage the entire membership to join PNGC and OPALCO in support of H.R. 3034.

#### **WRECA**

Verbal discussion at meeting.

#### **ELECTIONS AND GOVERNANCE COMMITTEE UPDATE**

The Elections and Governance Committee (EGC) is working diligently reviewing Board compensation and proposing a new policy on elections procedure. It is expected that they will report to the Board in December or January.

#### **ENGINEERING, OPERATIONS, AND TECHNICAL SERVICES**

##### **WIP**

As of 11/7/2017, there are 383 work orders open totaling \$20,662,855. Nine of these projects are associated with the submarine cable project totaling \$11,290,782. Operations has completed construction on 92 work orders, totaling \$2,616,123.

##### **Safety**

Jeff Myers conducted boater safety training. This training is to review the safety consideration of boat operations, review of the boat, and other factor employees should consider when operating the boat. The total hours worked without a loss time accident is 21,944.

##### **Submarine Cable Update**

The splicing activities and initial in-service testing have been completed. The cable will be energized with no load for several days during the preparation of the cathodic protection system installation. Final energizing of the cable will be in December and project close-out by end of Q1 2018.



Otis Perkin Park Cable Splice



Pear Point Terminal



Fiber Splice Tent with Board

### **Decatur Tap and Substation Update**

BPA began construction and fiber splicing from the BPA relay at the terminal on the west side of Decatur to our substation, allowing for monitoring of the cable system at the tap. OPALCO crews are erecting the substation steel and BPA will deliver the tap conductors in the next few weeks. Due to natural disasters (hurricanes), we are experiencing delays in manufacturing and delivery of breakers.

### **Community Solar**

Bids have been submitted. OPALCO is working with the selected bidder to finalize the contract, which will be executed by year end.

### **FINANCE**

Staff will be presenting for Board discussion the following items in November:

- 2017 Q3 financial statements
- 2017 Capital Credit General Retirement
- 2018 Budget

### **COMMUNICATIONS**

#### **Civic Club Meetings**

The communications team has presented at various civic club and homeowner meetings in the last couple of months including Kiwanis, Rotary, Lions, Rosario Homeowners Association, and Oddfellows on San Juan Island and Orcas Island. We have reached more than 190 people at these events discussing the OPALCO roadmap and latest projects as well as answering questions. There is a lot of interest in community solar and renewable energy. We will continue reaching out in 2018 to attend more civic clubs and community organizations on as many islands as we can muster an invitation to attend.