



**BOARD OF DIRECTORS
REGULAR MEETING
Friday, January 19 8:00 a.m.
Lopez Fire Hall**

TRAVEL



Via Island Air

378-2376

To:

Leave FH 7:15 a.m.

Arrive Lopez 7:30 a.m.

Return:

Leave Lopez 2:00 p.m.

Arrive FH 2:15 p.m.



Via Ferry:

To:

Leave FH 5:55 a.m.
Orcas 7:00 a.m.
Shaw 7:15 a.m.

Arrive Lopez 6:40 a.m.

Arrive Lopez 7:45 a.m.

Return:

Leave Lopez 3:35 p.m.

Arrive Shaw 3:55 p.m.

Orcas 4:15 p.m.

FH 4:55 p.m.

SEQUENCE OF EVENTS

- Board Meeting
- Ribbon-Cutting Ceremony Otis Perkins Park
- New Director Orientation

**Orcas Power & Light Cooperative
Board of Directors
Regular Board Meeting
Lopez Fire Hall
FRIDAY, January 19, 2018 8:00 a.m.**

PAGES

WELCOME GUESTS/MEMBERS

Members attending the board meeting acknowledge that they may be recorded, and the recording posted to OPALCO's website.

o Member Comment Period

Members are expected to conduct themselves with civility & decorum, consistent with Member Services Policy 17. If you would like answers to specific questions, please fill out the Q&A card for post-meeting follow-up.

o Welcome new Director Peter Garlock (District 3)

o Patrick Balducci, Chief Economist, Pacific Northwest National Laboratory (PNNL)

o Bob Kirchmeier, P. E., Senior Energy Policy Specialist, Clean Energy Fund Grid Modernization Program, Wash Department of Commerce

ACTION ITEMS

3-12

o Consent Agenda

13-20

o OPALCO Policy 11 *Director's Stipend* (2nd read)

21-26

o Member Services Policy 11 – *Capital Credits* (2nd read)

DISCUSSION ITEMS

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o Battery Energy Storage System

• PNNL (Patrick Balducci)

• Clean Energy Fund Grid Modernization Program (Bob Kirchmeier, P.E.)

28-29

o 2018 Schedule Road Map

REPORTS

30-32

o General Manager

ADJOURNMENT

Executive Session: Legal, personnel

MEMORANDUM

January 12, 2018

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
- Approval of new members {as required by Bylaws Article I Section 2 (d)} (see attached)
- Capital Credit payments to estates of deceased members and/or organizations no longer in business as shown below:

Customer #	Amount
2170	\$ 2,141.31
2260	\$ 966.65
3896	\$ 2,475.86
14897	\$ 1,898.42
21070	\$ 967.95
30682	\$ 1,060.50
32950	\$ 391.76
35170	\$ 307.25
51176	\$ 1,404.20
51183	\$ 1,349.38
60093	\$ 614.14
60904	\$ 1,871.46
62400	\$ 416.92
62854	\$ 422.48
63819	\$ 834.36
66794	\$ 369.47
67055	\$ 740.14
69965	\$ 2,570.54
• Total	\$20,802.79

- RUS 219s *Inventory of Work Orders* of projects completed from the Construction Work Plan totaling \$593,553.01:
 - Inventory 201711 \$579,136.58
Abandon URD; conversion to underground; site improvements; URD replacements;
 - Inventory AS1711 \$ 14,416.43
Minor projects

Staff requests a motion to approve the Consent Agenda.

Orcas Power & Light Cooperative
Minutes of the Board of Directors Meeting
Thursday, December 21, 2017

President Vince Dauciunas called the meeting to order at 8:00 a.m. at the Lopez Fire Hall. Board members present were Winnie Adams, Randy Cornelius, Jim Lett, Mark Madsen, Brian Silverstein and Jerry Whitfield. Staff present were General Manager Foster Hildreth; Manager of Engineering and Operations Russell Guerry; Manager of Finance and Member Services Nancy Loomis, Head Accountant Travis Neal; Assistant Manager of Member Services Jon Blomgren; Communications Team Suzanne Olson and Krista Bouchey; 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.”*

Nourdine Jensen Youth Scholarship Presentation

Scholarship recipients Haley Moss, Zach Fincher, Joanne Mietzner, Jonathan Doherty, Jayna Ott and Youth Director Tenley Nelsen presented highlights of their experience at the ICUA Youth Rally held at the College of Idaho this past July. All expressed their thanks to the Board and agreed that it was a life-changing experience.

District 3 Board of Directors Appointment

Dauciunas thanked the Elections and Governance Committee (EGC) for their diligent work vetting candidates for the seat in District 3 (Lopez, Decatur, Center and Charles) that will be vacated when Jim Lett retires from the Board in January 2018. Candidates were interviewed during closed session.

Executive Session 8:35 am – 11:00 am

Peter Garlock was appointed to fill the remaining term of Jim Lett, effective immediately following the January 2018 board meeting. The term expires in 2019.

Consent Agenda

- **Motion** was made and seconded to approve the Consent Agenda, including November 15 and 16 minutes, new members (listed below), capital credit payments totaling \$7,741.36 and RUS 219s totaling \$431,621.50. Motion carried by voice vote.

New members:

District 1 (San Juan, Pearl, Henry, Brown, Spieden)
Adams, Jon & Dean
Arrowsmith, Lacy
Berard, Jenny
Cox, Seth
Evans-Wickberg, Susan & Daniel B
Franklin, Antoinette
Grant, Randy & Jan
Green, Heidi & Mark
Johnson, Jeffrey & Smith, Rebecca
Joseph, Natalie
Lord, Mary
Mahoney, Stephen & Brittany
McCullagh, Sarah A
Montgomery, Aaron
Moreno, Ernest & Karyn
Nigro, Edward & Donna Lee
Ottinger, Nicholene & Gary
Rodman, Leslie
San Juan Auto Parts LLC
Springtree Vacation Stay LLC
Tripp, Jeffery & Jennifer
Tritschler, Maurice
Vitarelli, Arthur & Laurie
Weiland, Derek
Wow Thai Kitchen LLC

District 2 (Orcas, Armitage, Blakely, Obstruction, Big Double, Little Double, Fawn)
Arneill, Allison
Burbridge, Dean
Carter, Rebecca
Davidson, Lindsey
Hancock, Gregory C
Kean, Leslie S & Promislow, Daniel
LaFauce, Denise
Larson, Tylan C
Lassen, Alexander
MacDonald, Jeff
Murray, Brian
Pettyjohn, Steven & Knipe, Joan M
Shivers, Mike & Barbara
Unlax, LLC
Willard, Linda
Williams, Rosalind
Wilson, Jonathan
Younger, Tracie & Joaquin

District 3 (Lopez, Decatur, Center, Charles)
Bates, Albert
Clark, Carly
Coro’s Mechanical Repair
Danvolgyi, Lena
Fuller, Jane
Funaro, James & Theresa
Herold, Mehgan
Klein, Angel
Nichols, Rachel

Nou, Daniel
Peterson, Robert
Pope, Mary K & Bacco, Edward M
Stearns, Brian & Jean

Ward, Robin
District 4 (Shaw, Crane, Canoe, Bell)
Miller, Walter & Nicolene

Capital Credit Payments:

<u>Decedent #</u>	<u>Amount</u>
1780	\$ 665.61
7310	\$ 177.32
11179	\$ 388.32
21970	\$2,173.69
26680	\$ 859.46
26850	\$ 443.07
62468	\$1,906.23
69660	\$1,127.66

Tariffs

It was noted that these tariffs are the result of the 2017 annual budgetary process and the rate structure will be studied throughout 2018 for the 2019 rate period after the Cost of Service study is complete. The rates were set with the approval of the 2018 budget.

- **Motion** was made and seconded to approve the 5% increase to all components of the tariffs effective as of the first January 2018 billing cycle. Motion carried with one opposed.

Elections and Governance Committee

The Elections and Governance Committee (EGC) appointments were made with staggered terms initially in order to result in three-year rotations of different years. Members appointed to Position A of each district have completed their one-year appointments.

- **Motion** was made and seconded to reappoint members Barry Cave (District 1), Doug Marshall (District 2) and Rob Thesman (District 3) to Position A three-year terms. Motion carried by voice vote.

It was noted that two vacancies remain in Districts 1 and 3 Position B.

Member Services Policy 1 *Nature of Services Offered* Revision

Revisions were introduced to allow for office closures to expand staff training and development. Section 1.2.1 of MS Policy 1 will now read: *OPALCO shall maintain business offices in Eastsound and Friday Harbor. These offices shall be open from 8 a.m. until 4:30 p.m., Monday through Friday except holidays and occasional closures for safety training and staff development.*

- **Motion** was made and seconded to approve the revisions to MS Policy 1, adding “and occasional closures for safety training and staff development” to Section 1.2.1 and to waive the second reading. Motion carried by voice vote.

Member Services Policy 11 *Capital Credits*

Revisions were presented to Section 11.4.4 as a first read. These revisions were suggested at the November meeting to memorialize the approach of smoothing general retirement of capital credits. Clarification language was added in order to give smoothing guidance during the budgeting processes. Additional edits were suggested for clarity.

OPALCO Policy 11 *Director’s Stipend*

The Elections and Governance Committee (EGC) was tasked with reviewing this policy, which was last revised in 2013. The Committee thoroughly researched other boards’ compensation structures during their deliberation and gave a lengthy report on the process and made the policy change recommendations for board consideration.

Revisions were recommended to Section 16.2 *Meeting Stipend*, as a first read. The suggested revisions include an increase of the meeting stipend from \$250 to \$300; an increase from \$200 to \$225 per day for conferences and trainings; and an additional \$50 per Board meeting for the President.

This policy will be renumbered as well, due to some policies being transferred to the employee handbook.

Outage Recap

The outages on Shaw Island November 26 and 28 were reviewed. The outage November 26 effected Shaw, Orcas, Blakely, Obstruction and Crane islands and lasted 19 hours. Hildreth noted that the trees on Shaw Island are older and taller, posing more of a threat to the transmission lines. Future outages will be minimized once the redundant feed to Orcas from Decatur is completed and the right of way on Shaw widened.

Lessons learned for future outages include additional reconnaissance at the beginning of the outage to assess the full extent of damages; expand danger tree buffers and inspection program for transmission

lines; verify redundant communications paths; bridge communications with members and crews via the outage website; when upgrading distribution lines to transmission voltage, ensure right-of-way (ROW) widths are appropriately sized. Kudos were given for getting the power back on quickly and for keeping members informed during the process.

Cornelius left the meeting.

Community Solar Update

Hildreth reviewed the status of the Community Solar project at the Decatur Island Substation and introduced the logo. Marketing will begin in March. This array is a result of the Washington Clean Energy Fund matching grant. PNNL will provide the analytics as required by the grant and will present their report at the January 2018 meeting. BEF is providing a \$50k grant for low income.

After review and discussion, the Board consensus was to set the initial Community Solar Energy Credit Rate per kWh equal to OPALCO's residential tariff (\$0.1007/kWh effective with the January 2018 billing period).

Reports:

General Manager: Hildreth reviewed the report, including notice that staff will have monthly safety/field days, closing the office at noon for all to participate.

Total hours worked without loss time: 21,944.

The January meeting is moved to Friday, January 19.

ADJOURNMENT

Meeting adjourned at 1:40 pm

Vince Dauciunas, President

Winnie Adams, Secretary-Treasurer

NEW MEMBERS – December 2017

District 1 (San Juan, Pearl, Henry, Brown, Spieden)

1. Bogan, J. Michael
2. Brockway, Donna
3. Canton, Patricia & Riva
4. Catlin, Michael
5. Dolsen, Bill
6. Evans, Quinton
7. Federici, Tray
8. Gascoine, Susanna
9. Graham, Samantha
10. Hedin, Belinda
11. Island Gymnastics
12. Island Home Finishes
13. Klassen, Patricia
14. Linzee, Dorothy & John
15. Little, Ingrid
16. Lorentz, Shirley
17. Matthews, Mark
18. McFeron, Diane & Douglas
19. Morgan, Joel & Jamie
20. Squire, Benjamin
21. Warbass 350 LLC
22. Wiese, Margaret

District 4 (Shaw, Crane, Canoe, Bell)

District 2 (Orcas, Armitage, Blakely, Obstruction, Big Double, Little Double, Fawn)

23. Clark, Esther
24. Cleveland, Michael
25. Fackrell, Kimberly & Gaugush, Ken
26. Guilford, Israel
27. Honke, Michael & Scialabba, Tina
28. Lain, Kimberly & McKenzie, Duffy
29. Leidecker, Tyler & Robin
30. Manly, Lorraine
31. Maruska, Brittney & Portis, Eric
32. Mason, Kimberlie & Meyer, Robert
33. Mix, Alan
34. Mossman, Crystal
35. Reyes, Linnea
36. Robertson-Cantara LLC
37. Steen, Amanda & Christopher
38. Weidner-Reinhardt, Alexandra & Schneider, Ilias

District 3 (Lopez, Decatur, Center, Charles)

39. Elings, Jonathan
40. Madsen, Dana C
41. Stamats, Peter & Allen, Karen

12/21/2017 10:15:04 am

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RUS Form 219 Inventory Of Work Orders
Period: NOV 2017 System Designation: WA AH O9

Inventory : 201711

Table with columns: Budget, Loan, Project, Amount. Rows include projects 0000, 314, 601, 606, 608 and a Total row.

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 Haines Guerry
INSPECTION PERFORMED BY

Orcas Power & Light Cooperative
FIRM

52424
LICENSE NUMBER

1/12/2018
DATE

SIGNATURE OF LICENSED ENGINEER



12/21/2017 10:15:04 am

Page: 6

RUS Form 219 Inventory Of Work Orders
Period: NOV 2017 **System Designation: WA AH O9**

Inventory : AS1711

Budget		Amount
Loan	Project	
1	1600	14,416.43
Total:		14,416.43

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 1970 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 Haines Guerry Orcas Power & Light Cooperative
 INSPECTION PERFORMED BY FIRM

52024 1/12/2018
 LICENSE NUMBER DATE

[Signature]
SIGNATURE OF LICENSED ENGINEER



MEMORANDUM

January 12, 2018

TO: Board of Directors

FROM: Foster Hildreth

RE: Policy 11 *Directors' Stipend, Reimbursement and Benefits* Draft Revisions
(formerly Policy 16)

The Elections and Governance Committee (EGC) reviewed Policy 16 *Directors' Stipend, Reimbursements and Benefits* and introduced their recommendations at the December meeting; their report is attached.

The summary of the EGC proposal of policy changes is as follows:

- 16.2.1 Directors shall receive a stipend of ~~\$250~~ \$300 per OPALCO Board meeting attended.
- 16.2.2 Directors shall receive ~~\$200~~ \$225 per day for conferences, trainings or meetings attended on behalf of the cooperative, including travel days.
- 16.2.3 The Board President shall receive an additional \$50 per Board meeting.

Please note, renumbering of the policies is due to the conversion of staff related policies to an Employee Handbook. This policy will be renumbered from Policy 16 to Policy 11.

This is the second reading of the revised policy. Staff requests a motion to approve the revisions recommended by the EGC.

ORCAS POWER AND LIGHT COOPERATIVE

POLICY 11

DIRECTORS' STIPEND, REIMBURSEMENTS and BENEFITS

16.1 GOALS AND OBJECTIVES

This policy establishes the amounts that directors will receive for their stipend, reimbursements, and benefits while serving on the Board of Directors of Orcas Power and Light Cooperative.

16.2 MEETING STIPEND

16.2.1 Directors shall receive a stipend of \$300 per OPALCO board meeting attended.

16.2.2 Directors shall receive \$225 per day for conferences, trainings or meetings attended on behalf of the cooperative, including travel days.

16.2.3 The Board President shall receive an additional \$50 per Board meeting.

16.3 TRAVEL REIMBURSEMENT

16.3.1 Board members have the option of choosing the mode of transportation. Air travel shall not exceed the cost of coach class airfare. The use of a rental car shall be reimbursed at cost plus insurances. For the use of private vehicles, mileage shall be reimbursed at the prevailing IRS rate.

16.3.2 Housing shall be reimbursed at cost, based upon submitted receipts. In general, the cooperative will make hotel reservations for all board members traveling on cooperative business.

16.3.3 Meals can be reimbursed at cost with submitted receipts; or, in lieu of receipts, the Board members may choose to receive the prevailing IRS per diem rate for meals.

16.3.4 Other "out of pocket" expenses, such as parking, registration fees, taxis, etc. shall be itemized and receipts submitted. If the receipt is not available, an explanation of the expense shall be included when filing for reimbursement.

16.4 BENEFITS

16.4.1 Participation in OPALCO's health care plan is optional.

16.4.2 Directors may continue to receive health care coverage after serving on the board, with 100% of the cost of such coverage paid by the former director wanting coverage.

16.4.3 OPALCO shall provide, at its expense, 24 hour business/travel life insurance coverage for directors.

16.5 RESPONSIBILITY

The General Manager is responsible for ensuring that directors receive the proper stipend, reimbursements and benefits. Each director shall be issued an IRS Form 1099 each calendar year stating the amounts received from OPALCO which are subject to federal income tax.

Foster Hildreth, General Manager

Effective Date: January 19, 2018

Report to OPALCO Board of Directors
From the Elections and Governance Committee
Regarding Director Compensation

December 14, 2017

The Elections and Governance Committee (EGC) met on September 26th, September 28th, and October 10th to discuss this topic. Following those sessions, there was substantial email dialogue to develop these unanimously agreed upon recommendations and comments to the OPALCO Board of Directors.

1. OPALCO should continue, at least for now, the following aspects of the current structure of compensation practices:
 - a. Using a “per meeting” stipend for days attending other types of meetings (other than board meetings) on behalf of OPALCO.
 - b. Defining a higher stipend for Board Meetings. The higher stipend rate is to reflect the time that is expected, between board meetings, to review board materials, examine issues facing the cooperative, discuss OPALCO issues with members, etc.
 - c. Reimbursing for travel expenses in the manner currently established in Board Policy 16.3 Travel Reimbursement.

16.3.1 Board members have the option of choosing the mode of transportation. Air travel shall not exceed the cost of coach class airfare. The use of a rental car shall be reimbursed at cost plus insurances. For the use of private vehicles, mileage shall be reimbursed at the prevailing IRS rate.

16.3.2 Housing shall be reimbursed at cost, based upon submitted receipts. In general, the cooperative will make hotel reservations for all board members traveling on cooperative business.

16.3.3 Meals can be reimbursed at cost with submitted receipts; or, in lieu of receipts, the Board members may choose to receive the prevailing IRS per diem rate for meals.

16.3.4 Other “out of pocket” expenses, such as parking, registration fees, taxis, etc. shall be itemized and receipts submitted. If the receipt is not available, an explanation of the expense shall be included when filing for reimbursement.
 - d. Offering health care and life insurance as currently defined in Board Policy 16.4 Benefits.

16.4.1 Participation in OPALCO’s health care plan is optional.

16.4.2 Directors may continue to receive health care coverage after serving on the board, with 100% of the cost of such coverage paid by the former director wanting coverage.

16.4.3 OPALCO shall provide, at its expense, 24 hour business/travel life insurance coverage for directors.

- e. Comments: The Committee members feel that the present Policy 16 (covering stipends, reimbursements and benefits) covers what is needed. The expense reimbursement policy is sensible, and we recommend no changes. The Committee members have been advised that, in the past, total compensation amounts have varied considerably from director to director, based on what we assume were appropriate applications of two current policies: (1) health insurance is optional (not all directors request it) and (2) compensation for non-board meetings varies with the number of such meetings each director participates in. This 2017 Committee did not find this disparity of director compensation to be particularly troubling, although we did discuss the apparent discrepancy that results from the health insurance option. Different board members will likely be in quite different insurance circumstances (for example, participating in an employer sponsored plan, being eligible for Medicare, having -- or not having -- pre-existing conditions, etc.). This means that the insurance option may offer great value to some, and little value to others. This 2017 Committee recommends that the appropriateness of offering insurance that is of value to only some board members should be revisited in the future, after the nation's approach to health care will presumably have become clearer.
2. The per meeting stipends in Board Policy 16.2.1 should be modified as follows:
 - a. The daily stipend for participating in OPALCO-related meetings other than Board meetings should be increased from the present \$200 to \$225, effective upon adoption by the Board.
 - Comments: It was felt that the stipend for attending meetings on behalf of OPALCO that are not Board meetings ("Other Meetings") should fairly reflect the time involved. The current \$200 fee would divide out to \$25/hr for an 8-hour day. We see this as having been reasonable when adopted in 2010, but we note that inflation (as measured by the Consumer Price Index) has increased more than 12% since then. Accordingly, we recommend about a 12% increase, to a round number of \$225/day.
 - b. The daily stipend for attending a Board meeting should be increased from the present level of \$250, to \$300 effective upon adoption by the Board, and then increased again to \$350 effective a year later.
 - Comments. The Committee unanimously agrees with the current practice of setting the stipend for attending Board meetings higher than for "Other Meetings". We presume that this practice is intended to reflect not only the actual meeting time but also the "difficult to account for" time spent between meetings to study the materials distributed prior to each meeting, and to discuss issues with other directors, with management, and with members. After having reviewed the NRECA national survey of director compensation and considering other pertinent factors, we feel that there is good justification to increase this stipend by more than an inflation adjusted rate, particularly in view of

the increased number of hours that directors seem to be spending on OPALCO business the past few years (which this committee wishes to encourage), and also in view of the greater responsibility and complexity of the tasks facing the directors (including Rock Island Communications and the BPA rate changes and uncertainties that are anticipated in the future). We feel an increase from the present \$250 to \$350 is justified, although we recommend that it be phased in. As noted in section D below, the board has authority to adjust the recommended timing of, or reduce, these proposed increases.

- c. The Board Meeting stipend discussed above should be increased by an additional \$50 per meeting for the President, to reflect the additional responsibilities and hours of work associated with that position.
 - Discussion. In addition to presiding over Board meetings, the President also will be a primary spokesman for the cooperative at member meetings and a sounding board for management. The NRECA survey reports that 38% of respondents do provide some additional compensation for this position. The Committee recommends the additional \$50/meeting as an acknowledgement of that greater involvement and responsibility a director would accept if elected President. It is not intended to be sufficient to reflect the additional time required to serve in this capacity. The Committee acknowledges that many other directors also spend a great deal of additional time, and we thank all who do for their extra efforts.
- d. Discussion about Member Reaction. The 2017 EGC members are very aware that OPALCO will probably have to raise electricity rates over the coming years, and we anticipate that some OPALCO members may feel this means that director compensation should not increase at this time. There were differences of opinion among the EGC members as to the extent that potential member reaction should influence our committee's recommendations. After much discussion, we agreed that (1) our role is to recommend compensation levels that are the most fair and equitable to the directors, given prevailing rates, time commitments, and the expertise that Board members are asked to develop; and (2) it is the role of the Board to factor in the politics of how the membership might react. (After all, the directors are elected, we are not.) The Board members' job is among the most important in the organization. We determined that the board stipends presently represent a very tiny portion of OPALCO's expense structure (our very rough calculation is that our recommended increases would represent roughly 3 cents for every \$100 in monthly charges). We also note that Article III, Sec 5 of the Bylaws allows the Board to delay or reduce, but not increase, the EGC's recommendations, and we see that flexibility as having been intended to allow the Board to consider factors like member reaction in deciding whether to accept, or perhaps delay implementation of, the recommendations from the EGC. In the end, the Board's decisions should reflect what the directors believe is in the best interests of the cooperative

3. This 2017 EGC recommends that the topic of board compensation should be reviewed every 2-3 years. The current EGC members lack much experience with candidate recruitment (although two have been candidates), and we hope that the recent decision to constitute the EGC as a standing committee will, over time, generate more experience with the concerns of potential candidates, and more insight into whether compensation changes might widen the candidate pool to the cooperative's advantage.

General Discussion: There was considerable discussion within the EGC about how to approach this assignment, and we want to document here some of that discussion for the benefit of the Board of Directors, the OPALCO members who may read this report, and for future members of this committee.

During our initial discussion about how to approach compensation, we acknowledged that we could consider traditional compensation factors like the scope and degree of responsibility, the number of persons supervised, and what comparable organizations pay. A survey of electric cooperatives by the National Rural Electric Cooperative Association was reviewed by the Committee and referred to during our discussions. However, in the end, those ended up being less important factors in reaching our recommendations, and the Committee's consensus was reached primarily by discussing the following primary considerations:

- a) Equitable Compensation. The EGC members all agreed that the most important consideration is for OPALCO to have a director compensation package that is perceived by all parties as equitable. We recognize that Board service is not easy, and believe it is important that those who accept that burden will not feel that under-compensation represents an additional burden or insufficient appreciation of the immense value the directors provide to this cooperative. Accordingly, we evaluated director stipends by focusing on the minimum time commitment, the complexity of the issues which Board members must master, the challenge of dealing with differences of opinion among members, and the fact that there has been 12.4% price inflation since the last adjustments to the per meeting stipends were implemented back in 2010. [*The BLS CPI June 2010 was 217.97, June 2017 was 244.96, indicating inflation of 12.4%.*]
- b) Time Commitment. The Committee considered its role in trying to recruit candidates, and started by asking how we might explain the potential time commitment and the compensation involved. We interviewed Foster Hildreth, and we looked at the time reports that he has collected from directors over time. We estimated that a candidate should typically expect to spend a minimum of 15 – 20 hours per month on board business, at and between the monthly meetings (reading the board materials, communicating with fellow directors and management, talking with other members, etc. in addition to actually attending the board meetings). This 15-20 hour estimate does not include time spent at other meetings which are separately compensated. We also would make it clear to a potential director candidate that, as a new director, even more hours likely will be required to become familiar with the many issues facing the cooperative. Furthermore, there will be director training opportunities, although time spent at director school would be compensated separately from the stipend for attending other meetings.

The Committee noted that the hours reported by Board members have increased since the topics of broadband and Rock Island have been added to their agendas. We were advised that there is no additional compensation paid to the directors by RIC for serving on that additional board, so it has become an additional uncompensated time commitment. We see the increasing involvement of Board members as a good thing and feel it should be considered in evaluating compensation.

- c) Impact of Compensation on Quality or Diversity of Board. Our committee feels OPALCO has attracted good candidates in the past, and has been fortunate that many outstanding individuals have willingly donated a lot of time to serve on the Board of Directors. We felt obliged to discuss two questions: Would greater compensation result in a “better” board? Or in a “more diverse” board (and if so, would more diversity materially improve the quality of board decisions)? We concluded that the link between compensation and attracting candidates is somewhat speculative, and that at this point in time this Committee lacks sufficient experience with candidate recruitment to understand that linkage. During our discussion, it was noted that most of the current and past directors have been retired and likely have had independent incomes – whereas wage earners may lose wages to attend meetings, and self-employed individuals might have to hire additional support to permit them to spend more time away from their own businesses. Some Committee members shared the concern that compensation may be less of a consideration for new candidates for the Board than it might be for those who are considering whether to run for reelection (given their keener appreciation for the time involved, the controversies, and the inherent difficulties involved in shaping a consensus that reflects a wide variety of member opinions). Others felt the opposite might be true as well. And several committee members felt that in some cases we would have to increase compensation substantially if there were a strong desire to attract more candidates. In the end, we agreed that the recommended increases in director stipends might make it easier to recruit strong candidates for Board service, and we hope it does, but we are not confident enough to offer that as a justification for our recommendations.

Conclusion: The OPALCO Elections and Governance Committee submits these recommendations and this report unanimously. We hope that our comments and recommendations are helpful to the Board of Directors. The Committee members thank the Board for the opportunity to undertake this review.

Unanimously approved by the Committee:

Douglas C. Marshall, Committee Chair
Chom Greacen
Beverly Leyman
Howard Barbour
Barry Cave
William Severson
Rob Thesman

MEMORANDUM

January 12, 2018

TO: Board of Directors
FROM: Foster Hildreth
RE: Member Service Policy 11 - *Capital Credits*

At the December meeting, the board had the first read of the revised Member Services Policy 11 to memorialize our approach of smoothing general retirement of capital credits.

Pursuant to the discussion, staff added clarification language to MS Policy 11 in order to give additional smoothing guidance during budgeting processes, as seen below and attached.

“11.4.4 General Retirement of Capital Credits: The Board will consider general retirement of capital credits, in accordance with the above conditions, on an annual basis. The Board will review the amount of funds that are available for retirement and, if appropriate, authorize payment of these capital credits to members and former members. OPALCO shall not pay interest or dividends on capital furnished by members. **On an annual basis, the board shall utilize the following “smoothing methodology” to minimize year over year fluctuations in cash outlay. The goal of this methodology shall be to keep year over year general retirements as even as possible by ensuring that (a) on average, a 25-year payout schedule is maintained and (b) large fluctuations in future years’ retirements are levelized.**

This is the second read of the policy revision. Staff recommends a board motion to approve the changes to MS Policy 11 as revised.

ORCAS POWER AND LIGHT COOPERATIVE
MEMBER SERVICE POLICY 11
CAPITAL CREDITS

11.1 GOALS AND OBJECTIVES

To state the general policy of Orcas Power and Light Cooperative for allocating and retiring capital credits.

11.2 EXPECTATIONS

11.2.1 OPALCO shall operate on a cooperative basis for the mutual benefit of all members. Capital credits shall be allocated and retired in a manner that is consistent with operating as a cooperative under federal law. OPALCO will be fair and reasonable to its members and former members, while providing the cooperative with sufficient equity and capital to operate efficiently and effectively, thus protecting OPALCO's financial condition. Subject to law, OPALCO's Articles of Incorporation, and OPALCO's Bylaws, the allocation and retirement of capital credits shall be at the sole discretion of the OPALCO Board of Directors.

11.2.2 Member

An OPALCO member is any member, or member entity, who has paid the membership fee and who is providing patronage by using any OPALCO service.

11.2.3 Capital Credits

Capital credits are the primary source of equity for most cooperatives. Members contribute equitably to the capital of the cooperative every month when they pay their OPALCO bill for electric and communication charges. At the end of each fiscal year, the operating and non-operating expenses are deducted from the operating and non-operating income to arrive at the net margins. Net margins are assignable as capital credits to each member and allocated annually to the member's capital credits account.

11.3 PROCEDURES FOR ALLOCATION OF CAPITAL CREDITS

11.3.1 Board Approval

OPALCO shall allocate capital credits according to the manner, method, timing, and amount approved by the Board.

11.3.2 Patronage Earning Allocations

OPALCO shall equitably allocate its patronage earnings to each member in proportion to the value of service paid for by the member during the fiscal year.

11.3.3 Patronage Loss Allocations

OPALCO shall offset patronage losses with its patronage earnings during any fiscal year.

11.3.4 Formula for Allocation

A member's year-end capital credit allocation is calculated by multiplying OPALCO's annual capital credit allocation factor times a member's annual direct billing for electric energy and communication services.

11.3.4.1 Capital Credit Allocation Factor

Upon the completion of the OPALCO's audited annual financial statements, the total net margin is divided by total annual revenue derived from the sale of electric energy and communication services (also known as patronage) which results in the Cooperative's overall allocation factor. The total patronage amounts included are annual electrical demand charges, street and security light charges, kWh usage charges, basic charges, and communication charges. The Cooperative's revenue components that are not included in the allocation factor calculation are miscellaneous charges (fees, deposits, member-elected contributions, etc.).

11.3.4.2 Member Capital Credit Allocation

To derive a member's year-end capital credit allocation, the Cooperative's overall Capital Credit Allocation Factor is multiplied by the annual amount paid by a member for electric energy and communication services, including charges for electric energy, electric demand, street and security lights, kWh usage, basic charges, and communication services. Member billing components not included in the capital credit allocation calculation are miscellaneous charges (fees, deposits, member-elected contributions, etc.).

11.3.5 Notification of Allocation

Within one hundred eighty (180) days following a fiscal year, OPALCO shall notify each patron in writing of the amount of capital credits allocated to the member for the preceding fiscal year. This notice can be in the form of a letter or as a message on the member's billing statement.

11.4 PROCEDURES FOR RETIRING AND REFUNDING CAPITAL CREDITS

11.4.1 At any time, if the Board determines that OPALCO's financial condition will not be adversely impacted:

11.4.1.1 The Board may authorize OPALCO to wholly or partially retire and refund capital credits to members and former members; and

11.4.1.2 The Board may also authorize OPALCO to retire and refund the corresponding affiliated organization's capital credits.

11.4.2 The Board shall have the discretion to determine the manner, method, and timing of retiring and refunding capital credits and affiliated capital credits.

11.4.3 Nothing in this policy shall be deemed to entitle a member to receive any capital credit or affiliated capital credit to which they have not contributed, or in a proportion greater than the proportion of their contribution.

11.4.4 General Retirement of Capital Credits

The Board will consider general retirement of capital credits, in accordance with the above conditions, on an **an yearly annual** basis. The Board will review the amount of funds that are available for retirement and, if appropriate, authorize payment of these capital credits to members and former members. OPALCO shall not pay interest or dividends on capital furnished by members.

On an annual basis, the board shall utilize a “smoothing methodology” to minimize year over year fluctuations in cash outlay. The goal of this methodology shall be to keep year over year general retirements as even as possible by ensuring that (a) on average, a 25-year payout schedule is maintained and (b) large fluctuations in future years’ retirements are leveled.

11.4.5 Retirement of Capital Credits due to Death

Upon the death of any individual member or individual former member, and pursuant to a written request from the deceased member’s representative, the Board may retire the deceased member’s capital credits and affiliated capital credits under terms and conditions agreed upon by the member’s representative and OPALCO, which will include reduction of said credits as described in Section 11.5.3.

11.4.6 Retirement of Capital Credits to Entities

Upon the dissolution, liquidation or cessation of existence of an entity member or former entity member, and pursuant to written proof that the entity no longer exists, the board may retire the organization’s capital credits and affiliated capital credits under terms and conditions agreed upon by the entity member and OPALCO, which will include reduction of said credits as described in Section 11.5.3.

11.4.7 Joint Memberships

Upon OPALCO receiving written notice and adequate proof of any joint membership that is:

11.4.7.1 Terminated or converted through the death of one (1) joint member, the capital credits previously allocated and credited to the joint membership shall remain with the surviving joint member/s; or

11.4.7.2 Otherwise terminated or converted, and unless otherwise instructed by a court or administrative body of competent jurisdiction, the capital credits previously allocated and credited to the joint membership shall be transferred proportionately to each joint member.

11.4.8 Application to Debt

Before retiring and refunding any capital credits or affiliated capital credits, OPALCO may deduct from the capital credits or affiliated capital credits any amounts owed to OPALCO by the member or former member as per the procedure set forth in Member Service Policy 7 *Billing and Collection*.

Any remaining capital credits due the member or former member may be distributed during the normal payout cycle of capital credits.

11.4.9 Minimum Amount

OPALCO shall not retire and pay capital credits in an amount less than \$5.00.

11.5 LIMITATIONS

11.5.1 Forfeiture of Capital Credits

OPALCO shall not enter contracts through which a member or former member forfeits the right to the allocation or retirement of capital credits. RUS Bulletin 102-1 states "No patron should be asked by contract or otherwise to waive his capital credits."

11.5.2 Separate Allocations and Retirements

OPALCO shall separately identify and allocate to its members capital credits and similar amounts allocated to OPALCO by an entity in which OPALCO is a member, patron, or owner. OPALCO may retire these separately identified and allocated capital credits only after the entity retires and pays the amounts to OPALCO.

11.5.3 Valuation of Special Retirements

Special Retirements are applicable for a deceased member, dissolved corporation or association, or bad debt. Special retirements return capital to members earlier than the general retirements, which are typically planned on a 25-year holding period. An earlier retirement has a lower value. OPALCO shall use the percentage rate set by the Board at the January 1987 OPALCO Board of Directors meeting. This is a straight-line accrual; OPALCO will pay 2.5% cumulative for the year the capital credit has been held by OPALCO; (i.e., 2.5% for 2004, 5% for 2003, 7.5% for 2002, etc. In addition, capital credits paid out as special retirements that have been held by OPALCO for over 25 years will be paid at 100%.

11.5.4 Voluntary Assignment to Member Programs

During the General Retirement process, members have the option of voluntarily retiring allocated capital credits and assigning capital credit payments to Board approved OPALCO member programs, including Project PAL, Solar for Schools, M.O.R.E., or other approved programs as determined by the Board. Annual capital credit distributions may be assigned to the selected OPALCO member program on a one-time or recurring basis. Members must notify OPALCO of their voluntary assignment via the attached form. Such assignment forms are to be submitted to OPALCO no later than October 1st of any given year.

11.5.5 Payment and Notice of Retirement

With the exception of Application to Debt in Section 11.4.8 and/or Voluntary Assignment to Member Programs in Section 11.5.4 above, after OPALCO retires capital credits allocated to a member, it shall pay the retired amount by sending a check for the amount to the member's most current address listed on OPALCO's records.

11.5.6 Unclaimed Capital Credits

If a member or former member fails to claim a retired capital credits amount within 180 days, the check will be voided and added to the list of unclaimed capital credit amounts.

11.6 RESPONSIBILITY

11.6.1 Implementation of Policy

OPALCO's general manager is responsible for implementing this policy and for developing procedures necessary to allocate and retire capital credits according to this policy.

11.6.2 Recommendations to the Board

OPALCO's general manager is responsible for recommending to the board the manner, method, timing, and amount for allocating and retiring capital credits. The manager is also responsible, when in the best interest of OPALCO, its members and former members, for recommending to the board revisions to this policy.

11.6.3 Review and Approval by Board

The board is responsible for approving the recommended manner, method, timing, and amount for allocating and retiring capital credits. The board is also responsible for reviewing, discussing, and evaluating the general manager's recommendations for revisions of this policy.

Effective Date: January 19, 2018

Foster Hildreth, General Manager

MEMORANDUM

January 12, 2018

TO: Board of Directors
FROM: Foster Hildreth
RE: Battery Energy Storage System Economic Analysis

Staff continues to work with the WA State Department of Commerce and Pacific Northwest National Laboratory (PNNL) on the Decatur Substation Battery Energy Storage System (BESS) project. PNNL's economic analysis is one component of the overall Department of Commerce grant. PNNL's scope of work includes a preliminary economic analysis of the BESS, as well as a follow-up testing analysis once the battery system is commissioned.

Patrick Balducci, PNNL Chief Economist and Bob Kirchmeier, WA State Energy Office Sr. Energy Policy Specialist, will attend the January 2018 board meeting. Patrick will provide the board and staff with a presentation of the results of the Decatur BESS use-case economic analysis. Bob will provide an update on future grant funding opportunities through the State grant program (CEF III).

MEMORANDUM

January 12, 2018

TO: Board of Directors
FROM: Foster Hildreth
RE: Schedule Road Map - 2018

As we start the new year, staff has outlined the major monthly review topics for 2018. Please note modifications can be made to the schedule and changes are fully anticipated as the year progresses.

General Guideline (DRAFT)
Items for Annual Review by Board of Directors

JANUARY	19 th Board Meeting and Sub Cable Ribbon Cutting - Lopez GM Annual Review
FEBRUARY	15 th Board Meeting – Friday Harbor Community Solar Policy (1 st Read) Attorney Review and Engagement Contract
MARCH	12-16 th Board Candidate Forums 15 th Board Meeting – Eastsound Community Solar Policy (2 nd Read) Unaudited Year-End Financials Rates Review (Separate Work Session 3/16 – Eastsound) Long Range Plan Review (IRP and CWP)
APRIL	19 th Board Meeting – Lopez 21 st Annual Meeting – Inter-Island Ferry Audit Report
MAY	17 th Board Meeting – Friday Harbor Q1 Financials Rates Review - Debt and Equity Plan (Based on Long Range Plan above)
JUNE	21 st Board Meeting - Eastsound Rates Review - Cost of Service Presentation
JULY	<i>No Meeting</i>
AUGUST	16 th Board Meeting - Lopez Q2 Financials Auditor Engagement Contract Community Solar Tour
SEPTEMBER	20 th Board Meeting – Friday Harbor Board Self-Evaluation & Director Compensation Load Forecasting Strategic Directives Rates Review (Separate Work Session 9/21 – Eastsound) Rate Structure Analysis
OCTOBER	18 th Board Meeting – Eastsound Election and Governance Committee (EGC) Appointments Annual Meeting Planning Tax Return Approval and Submittal Rates Review – Rate Structure Approval
NOVEMBER	15 th Board Meeting - Lopez Capital Credits General Retirement Approval Q3 Financials Annual Budget Review and Approval Tariffs (1 st reading)
DECEMBER	Annual Budget Follow up (if required) Tariffs (2 nd reading)

Other:

Rate Study

- Long Range Plan
- Debt and Equity Plan
- Cost of Service Presentation
- Rate Structure Analysis
- Tariff Approval

As Needed:

- Policies Review
- By-laws Review
- Safety (Monthly updates) / Overall Review
- Board Conference/Training

GENERAL MANAGER'S REPORT January 2018

DASHBOARDS

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

ENGINEERING, OPERATIONS, AND TECHNICAL SERVICES

WIP

As of 1/12/2018 there are 361 work orders open totaling \$22.8M. Three of these projects are associated with the submarine cable project totaling \$12.4M. Operations has completed construction on 69 work orders, totaling \$1.7M.

Safety

Jeff Myers conducted training on emergency communications. This training includes procedures for response to an injury. The total hours worked without a loss time accident is 35,964.

Submarine Cable Update

We are excited to celebrate a ribbon cutting on January 19th with all the wonderful people who had a hand in this monumental project. OPALCO staff continues to complete the final work in the submarine cable terminal for integrating the relays, communications system, final testing, and project closeout.

Decatur Tap and Substation Update

OPALCO crews are erecting the substation steel and installation of insulators and breakers. Contractors are on site to complete the conduit installation, ground grid and bus welding.



FINANCE

The YE 2017 projection is shown below, this is in-line with projections provided at the November 16th budget board meeting which projected a TIER of 2.92. These amounts are subject to change as we finalize December amounts and close out 2017.

2017 Projected Income Statement (in thousands)	2017		
	YE Budget	YE Projected	Variance
Total Revenue	\$ 26,715	\$ 27,990	\$ 1,275
Total Expenses	24,704	24,843	139
Net Margin	\$ 2,011	\$ 3,147	\$ 1,136
TIER	2.36	2.95	0.59
HDD	1,056	1,492	436
kWh Purchases	202,132	229,155	27,022
kWh Sales	189,106	209,978	20,872

MEMBER SERVICES

Energy Charge Adjustment

Staff worked diligently to ensure the \$750k year-end energy charge adjustment occurred. Over 15k member accounts received an average credit of \$50 to their December bill.

Capital Credit Smoothing

As part of OPALCO's new capital credit general retirement "smoothing" methodology, \$1.3M (\$1M in cash) was retired for 100% of 1992 and ~45% of 1993. The average check amount was issued for ~\$188.

COMMUNICATIONS

Media Relations

Big news cycle for OPALCO with articles out on Capital credits, year-end bill credit, rate increase, PNGC, Nominations Open and New Board Member (Lopez - Peter Garlock) appointment.

Community Solar

Outreach and the contract discussions with Puget Sound Solar for community solar was delayed until February due to changes in federal tax law that affect the project costs and member pricing. A website splash page with solar value calculator is under development and branded items are in production for the annual meeting.

Election 2018

On January 8th, members received an email asking for their preference for voting by mail ballot or online. Nominations are now open for the 2018 OPALCO Board of Directors election. There are two positions up for election in District 2 (Orcas, Armitage, Big Double, Blakely, Fawn, Little Double and Obstruction islands). Interested co-op members from District 2 can apply to be nominated through the online nominations app at <https://opalco.directnominations.net>. The deadline is January 30th.

The volunteer member Elections & Governance Committee reviews all applications and recommends a slate to the Board for approval. Members may also be nominated by petition with the signatures of at least 20 members from their district. The deadline for nominations by petition is February 23rd.

For more information on OPALCO's election, visit the Resource Library at www.opalco.com/elections. The annual meeting is scheduled for Saturday, April 21st on the Washington State Ferry.

Social Media

The next Facebook live streaming event is scheduled on 1/23 to talk with members about the rate increase.

Website

The New Member Experience launched this month and updates to the Resource Library will make it easier to search.

Newsletter

The newsletter is now called “This Electric Life” to support OPALCO’s fuel switching campaign.

Member Satisfaction Survey

A member satisfaction survey is in development. The last such survey was delivered in 2014. Survey will launch at the Annual Meeting. Results will include comparisons to 2014.

Youth Scholarship Program

Outreach begins in February for the Nourdine Jensen Cooperative Youth Scholarship Program. The OPALCO representative Youth Director, Zach Fincher, will attend the Youth Rally planning meeting in Boise in late March.

Staff Field Day

Staff have developed a new program of Staff Field Day events for 2018 to encourage safety awareness, team building and a healthy workplace culture. The OPALCO offices will be closed for part of one day each month in order to include all staff in the training and team development activities. The first Staff Field Day is scheduled for January 26th.