



BOARD OF DIRECTORS REGULAR MEETING October 18, 2018 8:30 a.m. Eastsound OPALCO Office

TRAVEL



Via Island Air 378-2376

To:

Leave FH	7:45 a.m.		
Lopez	8:00 a.m.	Arrive Eastsound	8:15 a.m.

Return:

Leave Eastsound	2:00 p.m.	Arrive Lopez	2:15 p.m.
		FH	2:30 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.
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**Orcas Power & Light Cooperative
Board of Directors
Regular Board Meeting
Eastsound OPALCO Office
October 18, 2018 8:30 a.m.***

**Time is approximate; meetings are scheduled around the ferry schedule; if all Board members are present, the meeting may begin earlier or later than advertised.*

PAGES

WELCOME GUESTS/MEMBERS

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 Services Policy 17. If you would like answers to specific questions, please fill out the Q&A card for post-meeting follow-up.*
- Kent Lopez, WRECA

ACTION ITEMS

- 3-11**
 - Consent Agenda
 - Renewal of CoBank Line of Credit
 - 2017 Tax Return (Board vote subsequent to review in Executive Session)

DISCUSSION ITEMS

- 12-26**
 - WRECA Legislative Review
 - Rates Review: Rate Structure Approval
 - Policy and Tariff Update
 - Policy 29 *Rate Design* (First Read)
 - Tariff ECA (New) - Energy Charge Adjustment (First Read)
 - Strategic Directives Review
 - Load Forecast

REPORTS

- 27-29**
 - General Manager

APPENDIX

- 29-33**
 - PNGC Newsletter

ADJOURNMENT

Executive Session: Legal, personnel

MEMORANDUM

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

October	
Customer #	Amount
67087	\$ 425.29
69493	\$ 668.52
71937	\$ 524.00
Total	\$1,617.81

- RUS 219s *Inventory of Work Orders* of projects completed from the Construction Work Plan totaling \$509,654.86. These forms are submitted to RUS for approval of loan funds.
 - Inventory 201808 *Smart Grid Infrastructure; transformer relocation; URD replacement*

Staff requests a motion to approve the Consent Agenda.

Orcas Power & Light Cooperative
Minutes of the Board of Directors Meeting
Thursday, September 20, 2018

President Vince Dauciunas called the meeting to order at 8:35 a.m. at the Friday Harbor OPALCO office. Board members present were Rick Christmas, Peter Garlock, Mark Madsen, Brian Silverstein, Jeff Struthers 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, Rock Island Communications (RIC) EVP Alan Smith, RIC CFO/SVP of Finance Chris Schmidt, and Executive Assistant Bev Madan (serving as recording secretary). Joel Paisner, legal counsel and Jay Kimball, consultant and member Dwight Lewis were also in attendance.

CONSENT AGENDA

- **Motion** was made and seconded to approve the Consent Agenda, including August 10, 2018 minutes, new members as listed with the Board materials, capital credit payments totaling \$6,555.54 and RUS 219s totaling \$2,495,799.75. Motion carried by voice vote.

VOTING DELEGATES

This item was added in order to formalize and confirm the voting delegates and alternates appointed by the OPALCO Board.

- **Motion** was made and seconded to confirm the following voting delegates and alternates for the organizations listed; motion carried by voice vote.

<u>Organization</u>	<u>Delegate</u>	<u>Alternate</u>
NWPPA	Dauciunas	Struthers
WRECA	Whitfield	Hildreth
NRECA	Madsen	Christmas
CFC	Madsen	Christmas
CRC	Hildreth	Loomis
CoBank	Hildreth	Christmas

WRECA UPDATE

Whitfield reported on the WRECA Board meeting held September 18 in Spokane. During the meeting, the WRECA legislative objectives was discussed. Of main concern is Initiative No. 1631, the Carbon Tax initiative which would impose a carbon fee on the biggest contributors to carbon pollution. While acknowledging flaws in the bill as currently proposed, the Board decided to support I-1631 in this round as “a step in the right direction” to promote clean energy in keeping with OPALCO’s vision for healthy sustainable island communities. Staff will draft a letter to WRECA (to be reviewed by Whitfield and Silverstein) which it will be sent to WRECA. A letter of support will also be published in local papers and on OPALCO’s website.

2019 ANNUAL MEETING

OPALCO bylaws require that the Board set the date and location of the annual meeting each year.

- **Motion** was made and seconded to set April 13, 2019 as the date for the 2019 annual meeting aboard the Washington State inter-island ferry and to appoint Joel Paisner parliamentarian. Motion carried by voice vote.

WA STATE RENEWABLE ENERGY SYSTEM INCENTIVE PROGRAM (RESIP)

Washington State University (WSU) administers the RESIP for the State of Washington. As required by Washington State legislation, WSU has communicated that its payouts of the solar incentives have been conservatively estimated and left 21 applicants on the waitlist. Given the conservative nature of the solar incentive calculations, WSU suggested that OPALCO can guarantee solar incentive payout in excess of the maximum (approximately ~\$289k) to its members; the possible shortfall or exposure is \$16,755.33.

- **Motion** was made and seconded that OPALCO guarantee solar incentive payouts to the waitlisted applicants in excess of WSU \$289k for fiscal years 2019 and 2020. Motion carried by voice vote.

RURAL ENERGY SAVINGS PROGRAM (RESP) LOAN / RESOLUTION 3-2018

The final loan documents are ready for execution. This loan supports the On-Bill Financing Program. Resolution 3-2018 *Rural Energy Savings Program* grants the General Manager authority to execute the RESP loan documents.

- **Motion** made and seconded to approve Resolution 3-2018 *Rural Energy Savings Program*. Motion carried by voice vote.

ON-BILL FINANCE PROGRAM

Staff and Board reviewed the implementation of OPALCO’s new on-bill financing program (OBF) using RUS’s member lending program and loan called RESP. Staff expects to roll-out the OBF program to members in the first quarter 2019. Given limited funding, the initial OBF loan offerings will be for measures that are specifically aligned to OPALCO’s fuel switching direction. Eligible projects will be 1) ductless heat pumps, 2) heat pump water heaters and 3) home EV charging stations.

Staff plans to expand the Energy Assist Program (EAP) within the 2019 budget, using a portion of the Energy Assistance Program (EAP) funds to provide awards to low-income members to make on-bill financing even more affordable by ensuring the added monthly cost does not exceed the monthly electric savings provided by a given project measure.

OUTAGE PROTOCOL

Internal outage protocols, procedures for restoration, communication to the membership and lesson learned were reviewed.

RATES REVIEW: RATE STRUCTURE ALTERNATIVES

A Board Work Session is planned for Friday, September 21 to review rate structures that support the Cost of Service Analysis that was reviewed at the August meeting. Mike Searcy of Guernsey will be present.

2018 WEBSITE ANALYTICS

Staff reviewed the annual review of Google analytics on OPALCO’s website. Traffic to OPALCO’s webpage is significantly higher than 2017 and, on average, almost 5x higher than in 2016. The top content areas in 2018 were: outages, bill pay, community solar and resource library. Also in the top ten were careers, contact us, rebates and newsroom. We also reviewed employee use independently and found the resource library gets high staff use – almost double the next highest content area (outages). The resource library is used primarily to access board meeting materials, billing information and rebate forms.

REPORTS

General Manager

Hildreth reviewed the General Manager’s report. Staff discussed the three portions required to complete the redundant feed to Orcas from the BPA substation on Decatur as follows: 1. the Decatur portion of the redundant feed to Orcas is complete, 2. Blakely substation rebuild is anticipated to be completed in late October, and 3. Olga Substation and Eastsound feeder upgrades have an anticipated completion of the end of October.

Staff applied for a \$585k matching grant through the Washington State Clean Energy Fund (CEF) 3 Research, Development and Demonstration grant program. The project plan will be used to demonstrate a vehicle-to-grid application in San Juan County using battery-electric busses with exportable power for unplanned outages and disaster readiness. The grant will require a \$585K match from other sources outside the CEF fund; final application is due in November. Staff is also working to submit applications for other phases of the CEF 3 program funding opportunities.

OPALCO’s low-income Energy Assistance Program was reviewed, noting that households receiving energy assistance have increased from ~250 to over 700 households. Though the EAP has been very successful, staff estimate that we are reaching only about half the potential households in need of assistance. Staff will be deepening the conversation with county support services and family resource centers to identify ideas to ensure households in need are aware of and benefit from these services. We will also be looking for ways to use EAP program funds the program to increase access to Energy Efficiency and Community Solar programs that might normally be out of reach to low-income members.

ADJOURNMENT

Meeting adjourned at 11:50 a.m.

Vince Daucinas, President

Brian Silverstein, Secretary-Treasurer

NEW MEMBERS – September 2018

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

1. Aldridge, Willard
2. Aylward, Natalie
3. Bryant, Edith & Meyers, Roger
4. Brucks-Reed, Emily
5. Burns, Cathleen
6. Cadwell, Any
7. Carter, Kirsten
8. Detterbeck, Nancy E
9. Drake, Susan & Paul
10. Gilliland, Randy & Kim
11. Giroux, Matt
12. Goebel, Janet
13. Niichel, Danielle L
14. Niles, Cynthia L
15. Ramirez, Stephanie
16. Ripin, Jeremy
17. Sinila, Roger
18. Smith, Cassandra
19. Stebbins, Martha
20. Thompson, Eric & Talley, Kathy
21. Wygant, Erin
22. Young, James & Jana
23. Zielger, Philip

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

24. Augenstein, Darren V
25. Birchler, Jason & Edwards, Sarah
26. Bosworth, Shiloah
27. Felton, Ann & John
28. Koning, Erin
29. McKinley, Ian
30. Nochez Dimas, Carlos E & Henriquez Nochez, Wendy
31. Preiss, Frank
32. Rivera, Valetina & Edward
33. Ross, Amy
34. Schwab, John & Smith, Robin Lynn

District 3 (Lopez, Decatur, Center, Charles)

35. Dagley Jr., Richard K & Lori Shari
36. Jackson, Mark H
37. Johnson, Susan
38. Maharam, Trish & Howe, Patrick
39. Needham, Christopher
40. Saylor, David & Rosemary
41. Seeton, Louis
42. Taran, Gil & Depaul, Kristi

District 4 (Shaw, Crane, Canoe, Bell)

None

10/01/2018 2:04:33 pm

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RUS Form 219 Inventory Of Work Orders Period: AUG 2018 System Designation: WA AH O9

Inventory: 201808

Loan		Work Order Construction (1)	Bdgt (3)	Gross Funds Required		Deductions		Contrib In Aid Of Constr and Previous Advances (8)	Loan Funds Subject To Advance By RUS (9)
Project	Year			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)		
		Retirement (2)							
601	2018	2449	1	4,060.48	0.00	0.00	0.00	0.00	4,039.83
							AFUDC: 20.65		
				4,060.48	0.00	0.00	0.00	0.00	4,039.83
608	2018	2772	1	44,970.14	323.91	0.00	0.00	0.00	44,888.35
		2772					AFUDC: 405.70		
608	2018	2818	1	16,008.20	0.00	0.00	0.00	0.00	15,893.40
							AFUDC: 114.80		
608	2018	2866	1	77,167.97	0.00	0.00	0.00	0.00	76,725.10
							AFUDC: 442.87		
				138,146.31	323.91	0.00	0.00	0.00	137,506.85
608 - 54	2018	2838	1	111,052.61	0.00	716.23	0.00	0.00	109,461.27
		2838					AFUDC: 875.11		
				111,052.61	0.00	716.23	0.00	0.00	109,461.27
706 - 3	2018	1847	6	51,855.08	0.00	0.00	0.00	0.00	46,527.28
							AFUDC: 5,327.80		
706 - 3	2018	1875	1	24,987.09	0.00	0.00	0.00	0.00	21,676.28
							AFUDC: 3,310.81		
706 - 3	2018	2060	1	10,219.19	0.00	0.00	0.00	0.00	9,468.27
							AFUDC: 750.92		
706 - 3	2018	2257	1	33,186.36	0.00	0.00	0.00	0.00	30,770.99
							AFUDC: 2,415.37		
706 - 3	2018	2527	1	30,793.86	0.00	0.00	0.00	0.00	29,033.98
							AFUDC: 1,759.88		
706 - 3	2018	2528	1	52,163.37	0.00	0.00	0.00	0.00	49,202.27

10/01/2018 2:04:33 pm

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RUS Form 219 Inventory Of Work Orders

Period: AUG 2018 System Designation: WA AH O9

Inventory: 201808

Loan		Work Order Construction (1)	Bdgt (3)	Gross Funds Required		Deductions		Contrib In Aid Of Constr and Previous Advances (8)	Loan Funds Subject To Advance By RUS (9)
Project	Year			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)		
		Retirement (2)							
							AFUDC: 2,961.10		
706 - 3	2018	2609	1	593.31	0.00	0.00	0.00	0.00	560.56
							AFUDC: 32.75		
706 - 3	2018	2778	1	25,738.78	0.00	0.00	0.00	0.00	24,955.42
							AFUDC: 783.36		
706 - 3	2018	2780	1	20,002.45	0.00	0.00	0.00	0.00	19,335.60
							AFUDC: 666.85		
706 - 3	2018	2865	1	27,350.71	0.00	0.00	0.00	0.00	27,116.26
							AFUDC: 234.45		
				276,890.20	0.00	0.00	0.00	0.00	258,646.91
Grand Totals:				\$ 530,149.60	\$ 323.91	\$ 716.23	\$ 0.00	\$ 0.00	\$ 509,654.86

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RUS Form 219 Inventory Of Work Orders

Period: AUG 2018

System Designation: WA AH O9

Inventory : 201808

Budget

Loan	Project	Amount
1	601	4,039.83
1	608	137,506.85
1	608 - 54	109,461.27
1	706 - 3	212,119.63
6	706 - 3	46,527.28
Total:		509,654.86

**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 Guerny

INSPECTION PERFORMED BY

Orcas Power & Light Cooperative

FIRM

52424

LICENSE NUMBER

10/3/2018

DATE

SIGNATURE OF LICENSED ENGINEER

MEMORANDUM

October 12, 2018

To: Board of Directors

From: Foster Hildreth, General Manager

Re: CoBank Line of Credit (LOC) Renewal

For emergency funding purposes, OPALCO has maintained a revolving credit facility for a committed \$5M line of credit (LOC) with CoBank since February of 2012.

The current LOC has been extended to December 31, 2018. Staff is currently in the renewal process for a new LOC. CoBank regulators now require that all committed LOCs be capitalized, which would include a fee if the LOC remains at a zero balance.

After numerous discussions, CoBank was able to offer OPALCO a \$2M committed and \$3M uncommitted LOC that will not have a fee associated with the instrument if a zero balance is maintained.

Upon discussion and concurrence, staff requests the Board execute an updated incumbency certificate required by CoBank for the LOC renewal process. An updated Board Resolution is not required by CoBank. With the updated incumbency certificate, the General Manager will be able to execute the new LOC documents once they become available within the next couple of weeks.

Staff recommends a motion for board to approve the incumbency certificate and allow the General Manager to execute the new CoBank LOC documents.

MEMORANDUM

October 12, 2018

To: Board of Directors

From: Foster Hildreth, General Manager

Re: 2017 Tax Return

The draft 2017 federal tax returns will be reviewed during Executive Session.

The 2017 returns are consistent with last year's filings and are based on the 2017 financial statements, audited by Moss Adams, that were reviewed and approved by the Board of Directors at the June 21st board meeting.

Upon review in executive session and concurrence, staff requests the Board make a motion to approve the submittal of the 2017 returns during regular session.

MEMORANDUM

October 12, 2018

TO: Board of Directors
FROM: Foster Hildreth
RE: WA Legislative Review

Kent Lopez, General Manager of WRECA, will attend the October board meeting to review legislative objectives, principles and carbon legislation statement (attached).



WRECA

Washington's Electric Cooperatives

PO Box 7219
Olympia, WA 98507
360.357.6048
www.wreca.coop

Your Touchstone Energy® Partner 

2019 Legislative Objectives

1. WRECA supports a Washington State energy policy that:
 - recognizes the value of the Northwest's clean and predominantly carbon-free electricity resources,
 - avoids shifting the costs of carbon pollution mitigation to cooperatives that do not use carbon emitting resources, and
 - supports carbon mitigation policies which do not adversely impact jobs in Washington State or place our businesses at a competitive disadvantage.
2. Concerning the Renewable Portfolio Standard (RCW 19.285), WRECA:
 - supports amendments to allow incremental power generated as a result of efficiency improvements at federal hydro facilities to count towards a utility's RPS requirements, and
 - opposes increases in RPS standards, or utility inclusion requirements.
3. WRECA supports the coordination of danger tree removal permissions and liability with the Department of Natural Resources (Utilities must have the right to proactively manage trees that are outside of standard Rights-of-Way or a waiver from liability if access permissions are not granted.)
4. WRECA supports the electric cooperatives' rights to determine the appropriate permitting, safe placement, permitting and rates for pole attachments. Due to safety and cybersecurity concerns, WRECA opposes third party access to any utility infrastructure.
5. WRECA is a strong advocate for the propagation of rural broadband and realizes the successful build-out must be safe, environmentally sensitive, aesthetically acceptable and economically sustainable.
6. WRECA supports the electric cooperatives' right to eminent domain
7. WRECA does not support any amendments to the state's net metering statute unless utilities are allowed to establish rates and fees to prevent to shifting the costs of serving net metered consumers to the consumers who are not net metered.
8. WRECA supports allowing easements on state-owned land for locating renewable generation in perpetuity at no cost.
9. WRECA supports state energy policy that ensures the reliability of the electric transmission and distribution systems.

2019 Legislative Principles

- 1.** Washington electric co-ops, as consumer-owned utilities, are regulated by local boards and are well governed by those who own them. Cooperatives should remain independent of the Washington Utilities and Transportation Commission's jurisdiction. Cooperatives have the highest customer satisfaction in the state.
- 2.** The Legislature must consider the impacts of policy decisions on the energy costs for Washington's rural families and businesses, and maximize the opportunities to utilize Washington's abundant and inexpensive electric energy.
- 3.** WRECA seeks legislative and regulatory provisions that provide small utilities with exemptions or more cost-effective compliance alternatives. We define small utilities as those with two percent or less of the state's total number of electric consumers as reported by the most recent data from the U.S. Energy Information Administration (EIA).
- 4.** To avoid duplicative and costly regulations that can harm Washington's competitiveness, WRECA prefers a national effort as the best approach to limiting greenhouse gas (GHG) emissions.



WRECA Carbon Legislation Statement

WRECA and its member-owned electric cooperatives seek to collaborate with legislators and stakeholders to shape energy policy so that it recognizes the value of the Northwest's clean and predominantly carbon-free electricity resources and avoid shifting the costs of carbon pollution mitigation to cooperatives that do not use carbon emitting resources. WRECA will only support carbon mitigation policies which do not adversely impact rural electric cooperative jobs in Washington State or place our businesses at a competitive disadvantage.

WRECA members assume that:

1. Carbon legislation would accelerate new kWh sales via the electrification of space heating and transportation sectors.
2. Our environment benefits from dramatically less carbon in the atmosphere.
3. Our cooperative members benefit because electricity is more efficient than fossil fuels and will decrease their total energy expense.

The WRECA members have identified specific principles that any carbon mitigation legislation must address:

1. Policies and regulations should be complementary, across all sectors, toward achieving the primary goal of carbon reduction, which in turn will promote new renewable resources, energy efficiency, and new energy technologies.
2. Electric system reliability must be the cornerstone of any carbon mitigation policy.
3. The timing and scale of investments in new resources and technologies should be aligned with each utility's needs for resources.
4. State policies should regulate carbon uniformly at the broadest scale possible and be technology neutral while providing compliance flexibility for utilities that pursue cross-sector carbon reductions.
5. State policies should allocate allowances or distribute revenues associated with carbon regulation in a way that fairly allocates costs and distributes benefits to the areas with the most needs and sustainability; specifically, back to utilities for renewable development, beneficial electrification of transportation sector and to rural communities for broadband expansion.

As carbon mitigation legislation is developed, WRECA members believe that to meet the principles listed above, the legislation must meet the following requirements:

1. Focus on the transportation sector since it is responsible for the largest percentage of carbon emissions in Washington. According to the U.S. Energy Information Administration, the transportation sector accounted for over 50 percent of the carbon emissions in Washington.
2. Exempt power purchases from the Bonneville Power Administration since the electric cooperatives and mutual electric companies have no control over the power resources that BPA uses to fulfill its wholesale power requirements. In any given year, less than seven percent of the average electric cooperative and mutual electric company generation portfolio includes resources that emit carbon. If the goal is to reduce carbon emissions, then it is counterproductive to exact a payment from a utility that cannot do anything about carbon emissions associated with its wholesale power portfolio. The costs would simply be passed on to the retail consumers.
3. Include a cap on the price of carbon to provide economic certainty to the sectors of the economy that would be subject to a carbon pricing mechanism.
4. Provide “off-ramps” to exempt the purchase and/or delivery of electric generation from emitting resources that is required to maintain the safety and reliability of the transmission and distribution systems.
5. If there is a carbon price levied on the sale of electricity by the electric cooperatives and mutual electric companies, then the utility should have the option to retain 100% of the funds collected to be used at its discretion on carbon mitigation measures by the utility and its member/ratepayers.
6. Funds generated from carbon legislation support further carbon reduction efforts and/or assist reaching carbon reduction goals of our lower income members.

For more information, contact Kent Lopez, 360-357-6048, klopez@wreca.coop.

MEMORANDUM

October 12, 2018

TO: Board of Directors

FROM: Foster Hildreth

RE: Rates Review – Rate Structure Alternatives

The timeline of the 2018 Rates Review has reached the Rate Structure Approval of the process.

As a follow-up to the September Board Work Session, staff would like to reaffirm the Board's conclusions to discussions around the COSA and Rates Work Session. The following is a synopsis of this.

Results of Cost of Service:

- Rebalance collected revenue between the individual rate classes as identified in the 2018 COSA. This would be accomplished through a phased approach.

Energy Blocks:

- Continuation of inclining energy blocks for summer and winter – The reasoning behind the current block structure was to:
 - Encourage all electric homes (fuel switching)
 - Encourage energy efficiency
 - Collect appropriate revenues from seasonal services

These blocks also provide a structure for the future to provide an easier transition to time-of-use blocks, once our metering infrastructure allows.

Beneficial Electrification (fuel switching):

- Cap kWh rate of the first block below competitive heating source fuel rates – By capping this rate, members will be encouraged to utilize electric sources in their homes or switch to more efficient electric sources.
- Application of future rate increase – Based on the outcome of the analysis of per unit costs of heating sources, application of rate increases should be applied such that the first block of energy is strongly competitive with other fuel sources. Since the other fuel markets can vary widely, our rate should have a wide margin between current energy rate and current fossil fuel rates. Other rate increases to meet budgetary requirements should be applied to service access charge.

Demand:

- Demand or proxy demand rate – Institute demand charges when accurate and verifiable meter data can be obtained from the next generation of AMI meters. Staff does not recommend implementing other forms of demand, such as proxy demand, which does not accurately measure a member's actual demand.

Energy Charge Adjustment:

- See proposed Tariff ECA and updates to Policy 29 *Rate Design*.

Staff will present data at the meeting to inform block rationale and the sizing thereof. Staff will also provide a cost analysis of the San Juan County heating and transportation fuel market as compared to electric sources.

The following is a summary timeline of the steps necessary to the future rate planning:

- ✓ Strategic Long-Range Vision: February 2018
- ✓ Long-Range Capital Projects Plan: March 2018 Work Session (March 16th)
- ✓ Long-Range Financial Plan (Equity, Cash, Debt): May 2018
- ✓ Cost of Service Analysis (COSA): August 2018
- ✓ Rate Structure Review that Supports the COSA: September 21, 2018 Work Session
- ✓ Rate Structure Approval: October 2018 – December 2018 (with Budget)

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 electric rates that allow the Cooperative to provide electricity that is reliable, cost-based, considerate of the environment and maintains the Cooperative's financial strength ~~at the Cooperative's lowest cost~~. The Cooperative's Rate Structures shall meet revenue requirements, fairly allocate the Cooperative's expenses in relation to each members' use of and impact on the system, reduce the effects of weather, market and other volatility and promote stability in the Cooperative's ~~ongoing financial position as indicated through equity and TIER~~ **strategic directives**.

29.2.2 Basic Fundamentals

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

29.2.2.2 Rates will be developed and implemented that:

29.2.2.2.1 Meet revenue requirements and are cost-based;

29.2.2.2.2 Are implemented over time when dramatic rate changes occur;

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. ~~to counter warming temperature trends and reduction in energy usage.~~

29.2.2.3 Rate Structure

29.2.2.3.1.1 **Energy (kWh):** Implement a **A** variable mechanism that passes energy costs to members based on their usage **and is strongly competitive with other carbon-based fuel resources;**

29.2.2.3.2 **Demand:** Implement a **A** demand component for commercial services which reflects the costs associated with variable need for system capacity for all member classes as the phase out/replacement of existing meters progresses; **a demand component for residential services will be further considered once automated metering infrastructure (AMI) is in place.**

29.2.2.3.3 Facility: Utilize a fixed cost methodology whereby the facility charge collects the Cooperative's fixed expenses. **Service Access Charge:** A fixed charge which collects the balance of revenue requirements not collected via the energy or demand components;

29.2.2.3.4 Energy Charge Adjustment (+/-): Implement a variable 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. A two-part, variable adjustment applied as a separate bill line item as follows:

29.2.2.3.4.1 Power Cost Adjustment (+/-): Monthly reoccurring true-up (surcharge or credit) to be applied to each member billing on a kWh basis, which adjusts for increases or decreases in the cost of power purchased as compared to the budgeted vs. actual cost per kWh sold (see tariff for calculation).

29.2.2.3.4.2 Weather Adjustment (+/-): On an as-needed basis and subject to board approval, a variable mechanism that balances the fluctuation in revenues to meet strategic directives.

Rates will incorporate a mechanism for ensuring any member's energy usage above (or below) the Cooperative's power provider's base load rates (BPA Tier 1) will be charged (or credited for those costs).

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

29.2.2.5 Rates shall be independent of OPALCO approved member programs for energy conservation (energy assist program, Project PAL, member owned renewal energy (MORE), etc.). The determination of the funding of these programs will be through Board action as laid out during the 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 routinely report to the Board of Directors as to the need to adjust rates to account for changes in cost or strategic initiatives directives.

Effective Date: ~~1/21/2016~~ 1/01/2019

J. Foster Hildreth, General Manager

ORCAS POWER AND LIGHT COOPERATIVE TARIFF – ECA ENERGY CHARGE ADJUSTMENT (NEW)

POWER COST ADJUSTMENT (PCA)

A true-up (surcharge or credit) will be applied to each member billing for service under this tariff to reflect increases or decreases in the wholesale cost of power as compared to the budgeted vs. actual cost per kWh sold.

The Cooperative shall adjust all bills in accordance with the following adjustment:

For the purposes of calculation of the PCA, Total Purchase Power Cost shall mean power purchases and credits from all power suppliers; excluding credits or purchases from all suppliers that may be applied directly to particular Members; including all power supply related costs but not limited to: monthly fixed charges, electric power production costs, fuel costs, market power purchases, transmission costs, substation costs, costs for any facilities that will be billed to the Cooperative by power suppliers, power supplier surcharges for programs such as, but not limited to, energy efficiency and demand response programs, other power supply related costs.

Budget Cost of Power

The Budget Cost of Power shall equal the total projected future cost of power at the time the current Cooperative rates were established (power cost embedded within current rates) divided by the total projected future kWh sales at the time the current Cooperative rates were established (kWh sales used to develop current rates).

Monthly PCA Factor

The monthly charges shall be increased or decreased on a uniform per-kWh basis computed monthly as follows:

$$PCA = \frac{(A - B \pm C)}{\text{kWhs}}$$

Where:

PCA = Power Cost Adjustment (expressed in \$ per kWh) to be applied to energy sales for the billing period.

kWhs = Total estimated energy sales for the billing period (excluding kWh sales associated with direct recovery of power cost charges or credits).

A = Total Purchased Power Cost from all suppliers for the billing period as defined above.

B = Budget Power Cost: Total estimated purchased electricity costs included in the Cooperative's base rates. The budget power cost is computed as:

D = Budget power cost in \$ per kWh sold as shown above

B = (D) * kWhs

C = Adjustment to be applied to the current monthly billing to account for differences in PCA-related costs and revenue for previous periods (one-month lag in true-up adjustment).

WEATHER ADJUSTMENT

On an as-needed basis and subject to board approval, a variable (kWh) mechanism that balances the fluctuation in revenues to meet strategic directives.

Foster Hildreth, General Manager

Effective Date: January 2019 Billing Period

MEMORANDUM

October 12, 2018

TO: Board of Directors

FROM: Foster Hildreth

RE: Strategic Directives: Review and Confirmation

Attached, please find updated Strategic Directives. These directives serve as the basis for the 2019 budget process.

To compare the revised strategic directives to the previously approved directives, please see the link to current strategic directives (updated 2015).

<https://www.opalco.com/wp-content/uploads/2015/12/board-strategic-directives-jan-2015.pdf>

Staff requests the board motion to approve revised directives as presented.

Orcas Power & Light Cooperative

Board of Directors

Strategic Directives

Board Strategic Directives provide guidance in achieving the goals and objectives of OPALCO and serve as the basis for the General Manager's performance appraisal.

1. Safety

Safety is our highest priority. Safety programs will be implemented to engage all staff members and to promote OPALCO's high standards for safety with a goal of no accidents.

2. Reliability of Electric Service

Maintain reliability of electric service.

3. Sustainable Power Supply Strategy

Maintain a long-term strategy to provide safe, adequate, reliable, advantageously priced power, including consideration of source risk and economic, climate and energy policy uncertainty consistent with our OPALCO grid operations.

4. Vision

Maintain a long-range vision for the future of the Co-op that addresses the evolution, maintenance and operation of the power and communications grid with a focus on member quality of life, sustainable communities and local resiliency. Maintain and publish guiding documents (Load Forecast, Cost of Service Analysis, Rate Structure Design, Construction Work Plan, Long Range Plan, Long Range Financial Forecast, Integrated Resource Plan) that encompasses OPALCO's overall strategic vision for incorporating grid modernization and local renewable generation (i.e. loop feeds, AMI, utility scale renewables and storage).

5. Personnel

Attract and retain top quality employees by actively cultivating a workplace culture that encourages high team functionality and harmony, promotes personal and professional development and maintains high employment satisfaction. Maintain wage rates that are competitive within the industry and for our region. Include apprenticeship and training programs for all positions and succession planning for key positions.

6. Member Satisfaction

Sustain high levels of member satisfaction as evidenced through periodic member surveys.

7. Communications with Members

Provide regular communication outreach to inform members of relevant issues and to encourage member participation and engagement in co-op affairs. Maintain transparency for co-op governance and operations. Cultivate a culture of listening and provide opportunities for member feedback.

8. Cash and Debt Fund Availability

Ensure revenue and financial stability and have cash and debt availability to provide for foreseeable demands and to mitigate the impacts of potential significant damaging events including storm damage, loss of electric supply, equipment or cable failure.

9. Debt & Equity

Maintain appropriate levels of debt and equity that support the long-range financial plan while maintaining all loan covenants and meeting regulatory requirements.

10. Communication Backbone

Maintain fiber optic and wireless communications infrastructure to support grid operations for OPALCO and its subsidiary.

11. Rock Island Communications

Manage OPALCO's wholly-owned subsidiary to provide our membership high quality, reliable internet, voice and communications services. Prioritize communications to emergency responders and fiber to the home deployment while continually improving wireless services and maintaining key partnerships.

Vince Dauciunas, President

October 18, 2018

Date

MEMORANDUM

October 12, 2018

TO: Board of Directors

FROM: Foster Hildreth

RE: Load Forecast

The Load Forecast is the heart of the budget and the most precarious aspect of our forecasting. Incorporating data from NOAA, PNGC and BPA, staff are preparing a load forecast and budget for 2019.

OPALCO's load peaks in the winter, in large part due to increased heating and lighting load. Weather drives heating load. Predicting the weather is fraught with uncertainty due to variations of temperature, wind and humidity and yet we depend on weather forecasting to meet our budgetary commitments. As a point of reference, OPALCO's load has ranged between 204M (2015) – 229M (2017) kWh. In 2018 we budgeted 217M in kWh purchases and are projecting an actual year end of 210M kWh purchases due to warmer weather than forecast.

We estimate that 2019 will be warmer than 2018 as we shift from neutral to warmer forecast El Nino conditions which will translate to lower kWh sales (reduced residential heating load) in the winter time.

While predicting the weather beyond a few days or weeks with any certainty is not possible, we can use trends to forecast likely scenarios. Weather drives how much energy co-op members consume, which drives how much revenue the Co-op generates to pay for expenses. Most of OPALCO's expenses are fixed costs. Due to OPALCO's current rate structure, most of OPALCO's revenue is highly variable and dependent on the weather (collecting fixed costs through variable kWh charge).

Staff will have a detailed presentation at the board meeting to foster a discussion about the 2019 load forecast target.

Please note, staff recommends implementing a monthly kWh true-up charge/credit on member bills. This Energy Charge Adjustment (ECA) would partially offset variances due to weather.

GENERAL MANAGER'S REPORT

October 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 October 12, there are 363 work orders open totaling \$11.25M. Operations has completed construction on 111 work orders, totaling \$6.2M. These figures do not include the September close.

Safety

Jeff Myers conducted training on pole-top rescue and reviewed OPALCO's Mayday protocol. The annual pole-top rescue certifies all line personnel are capable of performing lifesaving activities in the instance of an injury or incapacitation while fellow line personnel are climbing a pole or working from a bucket truck. The total hours worked without a loss time accident is 101,318.

Grid Modernization Projects

1) Decatur Energy Storage System (ESS) – WA DOC CEF2 Grid Modernization

OPALCO has selected HDR Engineering as the Owners Engineer. Through HDR's experience we will have an RFP for transmittal, pending concurrence with WA DOC, in mid-November.

2) WA DOC CEF3 RD&D

The pre-application for the WA DOC CEF3 RD&D grant program for a Vehicle-to-Grid project (\$585k) was approved to proceed with the phase 2 application by WA DOC. Staff will submit this in mid-November.

3) WA DOC CEF3 Grid Modernization

Staff has prepared the pre-application for submittal on Monday, October 15th. Staff plans on furthering the concepts of the Decatur ESS on Lopez. This will incorporate self-healing grid, outage mitigation, peak shaving, solar firming, and asset deferral for the Lopez Village area. These funds will not be available for solar projects, yet staff plans on submitting for WA DOC CEF3 Energy Efficiency and Solar grants will allow for additional funds to aid in the next OPALCO Community Solar project.

Redundant Feed to Eastsound Village

1) Decatur Tap and Substation

COMPLETE. The 1951 submarine cable leased from BPA has been taken out of service along with the Lopez stepdown transformer feeding it. These facilities will be decommissioned in 2019.

2) Blakely Substation

The Blakely Substation is under construction with an anticipated completion of early November. The photo below is of the site prepared for the ground grid and final foundations.



3) Olga Substation and Feeder Upgrades to Eastsound

Olga Substation is being reconfigured to accept 69 kV. Crescent Beach re-conductor projects will be completed in mid-November.

FINANCE

Staff has submitted the 2018 budgeted RUS loan draws (total \$2.5M 2018 budget) and is currently evaluating whether additional borrowings are needed based on 2018 revenue shortfalls. Main drivers for the shortfall were due to warmer than forecasted weather and a shift and acceleration of capital projects as was discussed during the March 2018 board meeting. Staff will bring a recommendation (if necessary) to the Board during the November board meeting for approval.

MEMBER SERVICES

Energy Assistance

In September 2018, 323 members received ~\$9.8k from the Energy Assistance program, compared to 319 members receiving ~\$9.5k in August and 280 accounts receiving \$7.4k worth of assistance during September 2018. The PAL committee will be accepting applications and meeting for the first time this season starting in November. OPALCO has signed an agreement with the Opportunity Council for the Low-income Home Energy Assistance Program (LIHEAP) for the 2018-2019 heating season and has extended an offer to partner for a low-income weatherization program in 2019 as well.

Energy Savings

Members applied for 18 rebates and received ~\$10.8k in incentives, including 2 rebates for fuel-switching measures. In partnership with the San Juan Islands Conservation District, staff is holding SmartHub workshops to help members understand their bills and usage in October. October 27-28 and November 17 staff will be at the San Juan Islands Green Home Tours promoting green load growth and OPALCO energy programs.

Community Solar

During the September billing cycle, the Decatur Community Solar array produced ~80,640 kWh. A total of ~\$8.1k was distributed to 272 accounts including an additional \$833 for PAL and the Energy Assist programs. Overall production was in line with expectations and the average bill credit in September was about \$22 (10 solar units).

COMMUNICATIONS

Town Hall “Listening” Meetings

A round of fall public meetings are scheduled for November 12-14th. These will be informal member meetings to answer questions and discuss whatever members are interested in. Foster will facilitate, and Board members will attend as available. Members will have a chance to review the proposed budget narrative for 2019 so that the Board can incorporate member feedback before approving the budget at the November 15th board meeting. The Orcas meeting will be live-streamed on Facebook. Notice is going out in the newsletter, ads, social media, articles, fliers on community bulletin boards and bill inserts. The schedule is:

- Monday, November 12th – Lopez Library, 5:30 – 7:00pm
- Tuesday, November 13th – Shaw Community Building, 1 – 3pm
- Tuesday, November 13th – Friday Harbor OPALCO office, 5:30 – 7:00pm
- Wednesday, November 14th – Eastsound OPALCO office, 5:30 – 7:00pm

Staff will provide talking points to board members prior to the meetings.

Support for WA I-1631

At the September board meeting, the Board discussed WA Initiative 1631, which would impose a carbon fee on the biggest contributors to carbon pollution. While acknowledging flaws in the bill as currently proposed, the Board decided to support I-1631 in this round as “a step in the right direction” to promote clean energy in keeping with OPALCO’s vision for healthy sustainable island communities. A letter of support was published in local papers and on OPALCO’s website (www.opalco.com/news).

Planned Power Outages

The first of two planned BPA outages occurred on September 25th. The outage went as planned on the BPA side, but when our crews brought power back up on San Juan Island, an elbow failed and repairs extended the outage for that area.

The second planned county-wide outage for BPA to complete the mainland feeder project is coming up: **Tuesday, October 23: 12:30am to ~4:30am.**

A planned outage for Orcas Island was completed overnight October 11-12th in order to cut in the new transmissions poles as part of the County's road re-alignment project. The outage went as planned. Everything was fully restored by 6:23am.

Members are notified through automated phone calls, bill inserts, articles, ads, social media, fliers on community bulletin boards and village walk-about (hand delivering fliers to businesses and speaking with members face-to-face). Read the full story at www.opalco.com/news.

Whales and Hydro

Staff responded to the draft recommendations of the Governor's Southern Resident Killer Whale (SRKW) Task Force and invited members to do the same. OPALCO is especially following the recommendations about spill and Lower Snake River Dam removal and studying how those potential actions may affect our membership through financial and carbon cost consequences. We will keep the membership informed as the final recommendations take shape (November 7th). Staff met with scientist Joe Gaydos of the SeaDoc Society, and a SRKW task force member, and are working on ways to support SeaDoc's outreach and education efforts in support of Salish Sea health and whale survival.

Staff Field Day

On September 27th, following morning safety meetings and pole-top rescue training, OPALCO staff were captivated by an educational presentation by the Whale Museum staff about our residential orca whales. The talk was live-streamed on OPALCO's Facebook page for the benefit of our membership. A good discussion ensued. The October field day will focus on cyber security.

Public Speaking / Civic Club Outreach

Staff made the rounds to the civic clubs, family resource and senior centers to discuss emergency and outage preparedness, and communication during power outages. Key messages include: outages happen – be prepared; have an outage communication plan and that may include having an “outage buddy” who can check in on our digital communications; a checklist for emergency outage supplies; and encouraging members to sign up for outage notifications in SmartHub. Outreach will continue through year end and staff will participate in SmartHub workshops to further reach members with outage preparation messages.

PNGC Power Pulse

September 2018

Inside This Issue

- 1 A Meeting of Minds
- 2 Online Energy Auction
- 3 PNGC Peak
- 3 Mid-C Pricing
- 4 BPA Happenings
- 4 Upcoming PNGC Events

A Meeting of Minds

PNGC hosted the National G&T Managers Association meeting at The Benson, in downtown Portland, September 9-11. This bi-yearly event allows G&T managers from across the nation to gather in one space to share ideas, swap best practices, and learn from industry leaders.

This meeting's agenda was packed with speakers covering a variety of topics including broadband development, CEO challenges and solutions, and battery technology developments. RUS, CoBank, and NRECA updates were provided, and NRECA CEO Jim Matheson spoke with the group.

PNGC staff hosted events outside the official agenda that included a wine tasting tour of Willamette Valley wineries, golf, and a guest lunch that toured iconic Portland neighborhood food carts. Finally, the managers group was treated to a dinner cruise on the Portland Spirit for their final night in the city.

Association President, Lisa Johnson of Seminole Electric, used the morning of the final meeting session to thank PNGC staff for their work. "These meetings aren't easy to put together, and planning is hard when everyone is spread across the country," Johnson stated, "and we just want to tell PNGC thank you for taking care of us while we were here."



The spring 2019 National G&T Managers Association meeting will be held in North Carolina.

View of downtown Portland from the bow of the Portland Spirit.

Online Energy Auction

On September 13 PNGC conducted an energy purchase auction on the Enernoc auction platform. Outside of the need to acquire the energy to meet our load needs, PNGC staff was interested in seeing whether buying through an auction platform resulted in better pricing in comparison to the current practice of bi-laterally contacting counterparties individually for pricing.

Jeff Kugel, PNGC Power Resource Analyst, describes Enernoc as an energy services company. He describes Enernoc's auction platform as working similar to eBay, from a software perspective. In this case, PNGC would initiate a Request for Proposals (RFP) for the auction, and Enernoc would then contact PNGC's counterparties to solicit their participation in the upcoming auction. The participating counterparties would then enter bids into the auction platform where the lowest bid would be visible to all. The idea is that transacting in this type of environment could potentially drive prices down and create pricing transparency for the buying entity.

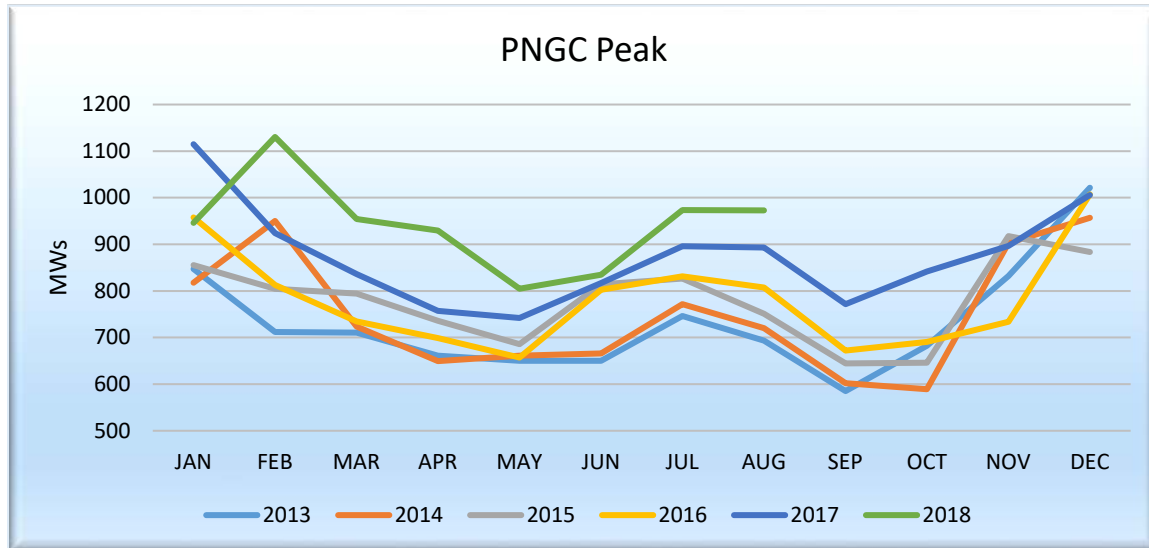
PNGC did purchase 25 MW of flat energy for Q1-2019 in this pilot auction at a competitive rate. "We did our due diligence with this pilot," Kugel said. "We did the pilot, the post-mortem, and now we're looking at more detailed back-end analysis." Kugel said there's a lot to consider with a program like this, and the power supply department at PNGC is currently weighing the benefits of what Enernoc has to offer. Fully exploring a potential new purchasing technique is all a part of the job, Kugel said. "It's part of our ongoing dedication to providing the best energy product on the market for our members."



Tiffany Menhorn of Enernoc, and Greg Mendonca and Jeff Kugel of PNGC Power.

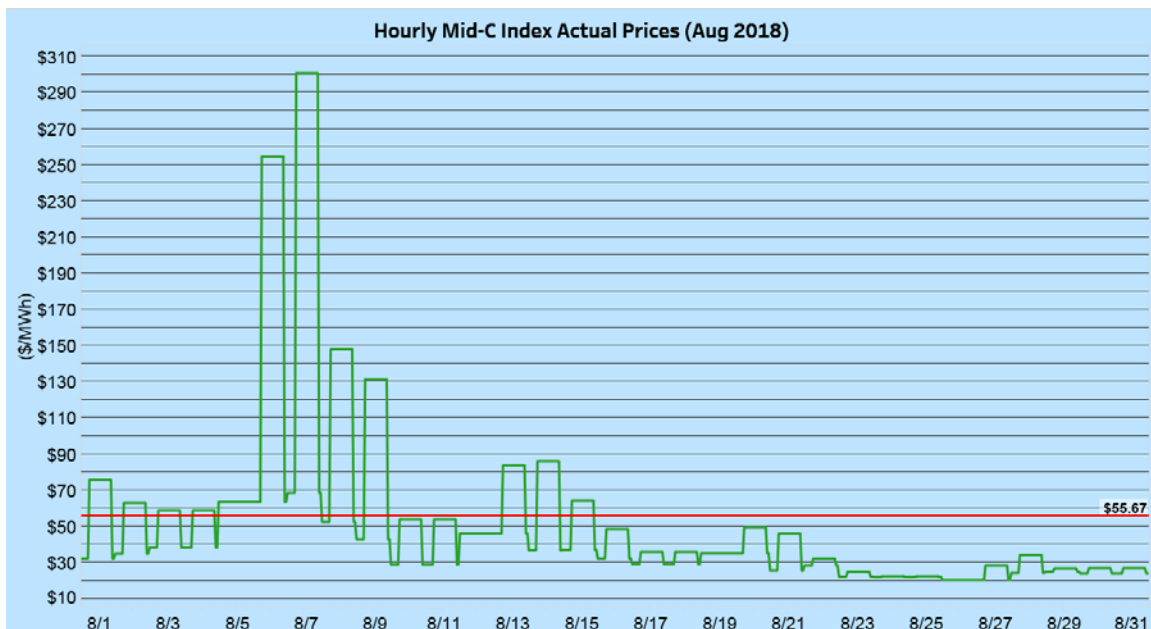
PNGC Peak

The graph below shows PNGC Peak for the past 5 years



Mid-C Pricing

The graph below shows Mid-C Pricing for the month of August 2018



BPA Happenings

Sept. 26	BP-20 Rate Case Workshop
Sept. 27	Brown Bag: Implementation Manual Updates
Oct. 11	BPA EIM Stakeholder Meeting

Upcoming PNGC Events

Oct. 1-2	PNGC Power Annual Meeting
Nov. 6	PNGC Board Meeting



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About PNGC Power:

PNGC Power is a Portland-based electric generation and transmission (G & T) cooperative owned by 15 Northwest electric distribution cooperative utilities with service territory in seven western states (Oregon, Washington, Idaho, Montana, Utah, Nevada and Wyoming). The company creates value for its member systems by providing power supply, transmission, and other management services. PNGC Power is an aggregator of geographically diverse loads in the region.