



# BOARD OF DIRECTORS REGULAR MEETING

**Thursday, August 8, 2019 8:30 a.m.**  
**Eastsound OPALCO Office**

## TRAVEL

<b>Via Island Air (378-2376)</b>	<b>To:</b>					
	Leave	FH	7:30 a.m.	Arrive	ES	8:00 a.m.
	Leave	LZ	7:45 a.m.	Arrive	ES	8:00 a.m.

<b>Return:</b>					
Leave	ES	4:00 p.m.	Arrive	Lopez	4:15 p.m.
			Arrive	FH	4:30 p.m.

<b>Via Ferry:</b>	<b>To:</b>					
	Leave	Lopez	6:45 a.m.	Arrive	Orcas	7:10 a.m.
		Shaw	7:00 a.m.			

Leave	FH	6:05 a.m.	Arrive	Orcas	6:55 a.m.
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<b>Return:</b>					
Leave	ES	6:20 p.m.	Arrive	Shaw	6:35 p.m.
				LZ	6:55 p.m.

Leave	ES	4:25 p.m.	Arrive	FH	5:05 p.m.
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## Sequence of Events

- Board Meeting

**Orcas Power & Light Cooperative**  
**Board of Directors**  
**Regular Board Meeting**  
Eastsound OPALCO Office  
**August 8, 2019     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.*

**WELCOME GUESTS/MEMBERS**

*Member 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 and decorum, consistent with Member Service Policy 17. If you would like answers to specific questions, please fill out Q&A card for post-meeting follow-up.*

**ACTION ITEMS**

- Consent Agenda
- Excess Liability Insurance (after review in Executive Session)
- 2019 Audit Engagement (after review in Executive Session)
- 2020 Annual Meeting Date

**DISCUSSION ITEMS**

- IRP (DRAFT REVIEW to be finalized in September)

**REPORTS**

- 2019 Q2 Financial Report
- KRTA Report Summary
- General Manager
- Rock Island Snapshot

**COMMUNICATION**

- The New Normal for electricity Markets Conjures Bad Memories

**EXECUTIVE SESSION**

Legal, Personnel, and Competitive

**ADJOURNMENT**

## MEMORANDUM

August 1, 2019

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)}

### NEW MEMBERS – June and July 2019

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

- |                                       |  |
|---------------------------------------|--|
| 1. Abramowicz, Micael                 | 23. Johnson, Mark & Lindsay                        |
| 2. Araki, Blake                       | 24. Koosmann, Cristine L                           |
| 3. Armstrong, Kelly E                 | 25. Mallon, Christopher                            |
| 4. Black, Rio                         | 26. Mendez, Gabriel T                              |
| 5. Blevins, Walker                    | 27. Moore, Kyna M                                  |
| 6. Boyd, Jean                         | 28. Moskowitz, Martin & Kim                        |
| 7. Carney, Rachel                     | 29. Nilsson, Lisa & Kurt                           |
| 8. Cheyette, David                    | 30. Pilkington, Peter & O'Hara Pilkington, Barbara |
| 9. Christensen, Brian                 | 31. Ratliff, David B                               |
| 10. Coldren, Nicholas I               | 32. Reid, Eileen & Harry                           |
| 11. Collins, Timothy                  | 33. Robertson, Frances & Lobue, Daniel             |
| 12. Dickinson, David & Anderson, Dana | 34. Rummel, John & Hipkin, Victoria                |
| 13. Eakin, Victoria                   | 35. San Juan Islands Sculpture                     |
| 14. Faulkner, Tami                    | 36. San Juan Lavender LLC                          |
| 15. Francis, Luci                     | 37. Sennett, David P & Hiroko                      |
| 16. Friptuleac, Mihail                | 38. Seton, Jeffery D                               |
| 17. Gallaway, Samuel & Katherine      | 39. Simonds, Christopher E                         |
| 18. Guidotti, Christopher             | 40. Stock, Michael & Hellstrom, Lori               |
| 19. Hayward, Lisa & Glenn             | 41. Sweezey, Zachary & Hernandez, Tierra           |
| 20. Island Glass Services Inc         | 42. Thayer, Ian                                    |
| 21. Jeanett, Susan                    | 43. Turner, Valerie                                |
| 22. Jensen, Kristopher T              | 44. Umland, Jeremy                                 |

45. Urell, Denise
46. Warhol, Thomas & Puyenbroek, Samantha
47. Yeriazarian, Kristin

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

48. 160 Merrymac Lane, LLC
49. Abaya, Modesto G & Krista
50. Agar, Frank Jr
51. Boggs, Jeff
52. Burris, John
53. Caps, Amanda & Christopher
54. Chandler, Robby
55. Dawson Construction, LLC
56. Glasser, Hannah M
57. Griffin, Kami & Kyle
58. Harrington, Randy
59. Hawley, Rebecca
60. Hodge, Jazmin
61. Jones, Deborah
62. Letter, Timothy
63. Masters, Kyle
64. McNutt, Mark & Lori
65. Moss, Susan
66. Myers, Robin & Larry
67. Nichols, Douglas J & Suzanne L
68. O'Hara, Ryan & Kristin
69. Olson, Curtis L & Michell E
70. Patterson, Jessica & Troy
71. Peterson, Bryce A
72. Rodriguez, Jerry

73. Schlosser, Jami & Parker, Travis
74. Shykind, David N & Giorgi, Maria R
75. Snyder, Cameron & Kristina
76. Titrington, Evan
77. Zucker, Peter

**District 3** (Lopez, Center, Decatur, Center, Charles)

78. Alexander, Susan
79. Anglin, Rebecca & Frederick
80. Becker, David
81. Brentson, Sherrie
82. Daniels, Jessica & Cameron, Ryan
83. Graville, Rachel
84. Harsila, David & Janis
85. Hendrix, Albert N
86. Kellenberger, Daniel
87. Leech, Jane D
88. Lenson, Tina C & Peter
89. Lopez Island Physical Therapy LLC
90. Moss, Heather & Mollner, Richard
91. Nafziger, Rich & Swenddal, Kristin
92. Richter, Leslie E
93. Shellans, Mark
94. Virginia Ferrari Trust
95. Weitman, Star & Eagle
96. Woodington, Lee

**District 4** (Shaw, Crane, Canoe, Bell)

97. Alvarez, Frederick D & Valverde, Holly A
98. Bridges, Matt
99. Bumback, Stacy & William
100. McDonnell, Lillian & Blakely, Carole

- **Capital Credit** payments to estates of deceased members and/or organizations no longer in business as shown below:

August	
Customer #	Amount
67233	\$ 168.54
60316	469.04
60720	588.70
69311	678.15
61723	17,015.51
<b>Total</b>	<b>\$ 18,919.94</b>

- **RUS 219s** *Inventory of Work Orders* of projects completed from the Construction Work Plan totaling \$100,880.93. These forms are submitted to RUS for approval of loan funds.

Inventory 201906 - \$100,880.93 for projects associated with URD replacement (\$15k) and smart grid infrastructure (\$85.8k)

Staff requests a motion to approve the Consent Agenda.

## Orcas Power & Light Cooperative

### Minutes of the Board of Directors Meeting Thursday, June 27, 2019

President Vince Dauciunas called the meeting to order at 8:35 a.m. in the OPALCO Friday Harbor conference room. Board members present were Vince Dauciunas, Mark Madsen, Jerry Whitfield, Jeffrey Struthers, Rick Christmas, Peter Garlock and Brian Silverstein. Staff present were General Manager Foster Hildreth, Manager of Engineering and Operations Russell Guerry, Manager of Finance and Member Services Nancy Loomis, Member Services Assistant Manager Jon Orr, Public Relations Administrator Suzanne Olson, Consultant Jay Kimball, and Executive Assistant Kelly Koral (serving as recording secretary).

#### Members/Guests

Dwight Lewis  
Tim Polda  
Renee Polda  
Tori Polda

Bill Appel  
Doug Rowan  
Chris Wolfe – Rainshadow Solar & Energy Solutions  
Justin Wolfe – Rainshadow Solar & Energy Solution

#### MEMBER COMMENTS

Several members in attendance addressed the Board.

#### CONSENT AGENDA

- **Motion** was made and seconded to approve Consent Agenda, including May 16, 2019 minutes, new members as listed with the Board materials, capital credit payments totaling \$938.92 and RUS 219s totaling \$1,878,453.76. Motion carried by voice vote.

#### UPDATE TO STRATEGIC DOCUMENTS

Revisions to the Mission Statement and Strategic Directives were presented by Staff and discussed.

- **Motion** was made and seconded to approve as amended. Motion carried by voice vote.

#### CLEAN ENERGY ACT

Kent Lopez of WRECA was unable to attend the meeting. Representatives from PNGC will be invited to a future Board meeting to discuss the Washington State Clean Transformation Act (SB5116).

#### BOARD AND MEMBER INFORMATIONAL TOPICS AND QUICK FACTS

Staff presented an updated version of Quick Facts.

#### GENERAL MANGER

Hildreth reviewed the General Manager's Report and Rock Island Snapshot.

Highlights:

- County-wide fire prevention and what OPALCO can do to inform members.
- Captial credits and distribution process.
- Energy Assist
- Rebates
- Community Solar
- Communications: Governor Inslee, Switch It Up, Nouridine Jensen Scholarship and Youth Rally

#### EXECUTIVE SESSION 11:20 a.m. to 12:20 a.m.

#### SOLAR AND STORAGE IN SAN JUAN COUNTY

Chris Wolfe and Justin Wolfe with Rainshadow Solar presented information and industry trends regarding solar panels and battery storage systems.

#### ADJOURNMENT

Meeting was adjourned at 1:15 p.m.

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Vince Dauciunas, President

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Brian Silverstein, Secretary-Treasurer

07/17/2019 2:18:15 pm

# RUS Form 219 Inventory Of Work Orders Period: JUN 2019

Page: 2

System Designation: WA AH O9

Inventory: 201906

Loan		Work Order		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	Construction (1)	Retirement (2)		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)		
608	2018 2974			1	23,407.79	0.00	0.00	0.00	8,473.23	14,712.37
								AFUDC: 222.19		
608	2018 3218			1	365.67	0.00	0.00	0.00	0.00	364.24
								AFUDC: 1.43		
					23,773.46	0.00	0.00	0.00	8,473.23	15,076.61
706 - 3	2018 1629			1	92,782.62	0.00	0.00	0.00	0.00	85,804.32
								AFUDC: 6,978.30		
					92,782.62	0.00	0.00	0.00	0.00	85,804.32
<b>Grand Totals:</b>					\$ 116,556.08	\$ 0.00	\$ 0.00	\$ 0.00	\$ 8,473.23	\$ 100,880.93

07/17/2019 2:18:15 pm

## RUS Form 219 Inventory Of Work Orders

Page: 4

Period: JUN 2019

System Designation: WA AH O9

Inventory : 201906

## Budget

Loan	Project	Amount
1	608	15,076.61
1	706 - 3	85,804.32
<b>Total:</b>		<b>100,880.93</b>

**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.

INSPECTION PERFORMED BY

FIRM

LICENSE NUMBER

DATE

SIGNATURE OF LICENSED ENGINEER

## MEMORANDUM

August 1, 2018

TO: Board of Directors

FROM: Foster Hildreth, General Manager

RE: Additional Excess Liability Insurance

As was discussed during the June board meeting, staff is working with our insurance partner, Federated Rural Electric Management Corp. (Federated), to possibly obtain additional excess liability insurance coverage quotes in order to reduce the Cooperative's risk and liability in the event of a catastrophic wildfire. These details will be discussed in executive session.

Staff recommends that the Board approve the increased level of additional excess liability coverage as presented in executive session, which would seem appropriate given the increase in risk of wildfires.

## MEMORANDUM

August 2, 2018

TO: Board of Directors

FROM: Foster Hildreth, General Manager

RE: 2019 Financial Statement Auditor Selection

Pursuant to OPALCO Policy 1 – *Functions of the Board of Directors*, Section 9, “Board Interaction with Auditors” and the OPALCO Bylaws, Article III – *Directors*, Section 8, “Accounting Systems and Reports”, the OPALCO Board is responsible for the selection of a certified public accounting firm that is acceptable to the Rural Utilities Service.

As part of the annual auditor selection process, staff would like the Board to discuss whether they would like to renew their audit and tax relationship with Moss Adams LLP or if they would like to explore other potential opportunities.

Moss Adams LLP has been the Cooperative’s main service provider since 2009 and has provided the Board and ultimately the membership with excellent service and insight into many complex and technical issues. Although the Moss Adams staff have rotated annually, some cooperatives believe that the firms should occasionally be rotated as well.

In executive session, staff would like the Board to discuss the auditor selection process and upon conclusion of the discussion provide staff with the guidance to either execute the Moss Adams engagement letter or to initiate an audit proposal process.

## MEMORANDUM

August 2, 2018

TO: Board of Directors

FROM: Foster Hildreth

RE: 2020 Annual Meeting

The purpose of this is for the Board to set the date for OPALCO's 2020 Annual Meeting. Based on holidays and other island events, staff recommends the date of April 18<sup>th</sup>, 2020. Pursuant to our bylaws (Article II), this will trigger the following notable sequence of events:

Event	Date
Legal Notice for Board positions	Dec 6
Director Applications due EGC	Jan 22
Nominations posted - (80 days prior to meeting)	Jan 29
Nominations by petition due to office	Feb 17
Nominations by petition posted - (55 days prior to meeting)	Feb 21
Notice to members/Ballots mailed - (21-50 days prior to meeting)	Feb 28 – Mar 28
Election closes - (3 days prior to meeting)	Apr 15
Annual Meeting	Apr 18

### Conflicts

- 04/12 – Passover/Easter
- 04/25 – Tour de Lopez
- 05/02 – Local events

Staff recommends a motion as follows:

- Set the date for the 2020 annual meeting as April 18<sup>th</sup>, 2020 (Bylaw Article II Section 1);
- Set the place for the 2020 annual meeting; staff recommends the interisland ferry (Bylaw Article II Section 1);
- Appoint Joel Paisner as Parliamentarian.

## MEMORANDUM

August 2, 2018

TO: Board of Directors

FROM: Foster Hildreth

RE: Integrate Resource Plan (IRP) Update

The draft update to our IRP (under separate cover) which describes power resource planning for the Co-op from 2020-2040. The IRP is an energy roadmap to keep the Co-op focused on where our power will come from in the future, how we will navigate through the legislative landscape, how members will use that energy and what investments need to be made starting today to ensure safe, reliable, affordable power for the next generations of co-op members.

This update addresses the rapidly shifting challenges and opportunities in the industry – and on the planet – as climate change, a changing energy resource landscape, transactive member participation in the grid and critical carbon policy take shape and influence the way we do business.

As we explore new low-carbon resources, efficiency gains, opportunities to develop local generation and new technologies, the IRP makes it clear that our connection to the mainland and the firming power of hydro is here to stay.

To prepare for our energy future and to keep our long-term rates as low as practicable, the Board must take bold action to build equity through rates and prepare the Co-op to meet the challenges and take advantage of the opportunities. Members must be informed of the issues through connection to the IRP and given opportunities to comment as we plot a course toward our energy future.

Staff will be soliciting input from internal and external stakeholders throughout August and finalize the IRP at the September Board meeting.

# MEMORANDUM

August 2, 2019

To: Board of Directors

From: Foster Hildreth, General Manager

Re: 2019 Second Quarter Financial Report

Please see attached the full 2019 2nd quarter financial report. Included in the report package are the Statement of Revenues and Margins (along with a notable driver analysis), Balance Sheet, Statement of Cash Flows (GAAP), and capital projects budget tracking.

The financial results through the 2<sup>nd</sup> quarter are good and are aligned with budget expectations. Two of the six months we have experienced La Niña conditions which increased our heating load. Going forward staff expects a stronger than predicted El Niño condition to the end of the year, which we expect to impact our financials through the end of the year. Please note our ECA will partially moderate the lower revenue.

Our average cost of power was lower than budgeted in March and May, causing an Energy Cost Adjustment (ECA) credit in April/June and an overall net credit to the membership of (\$145K) in Q2 from the ECA. YTD the ECA has returned a net \$300K in the form of bill credits which is the primary driver of the operating revenue variance of - 1% (\$181k), including non-operating, total revenue is under budget by (\$155K). The revenue variance through Q2 is offset by the related decrease in purchased power of 3% (\$145k). All combined resulted in a decreased margin of \$159k.

Income Statement Summary (in thousands)		June 2019 YTD		
		Budget	Actual	Variance
	Gross Revenue	\$ 16,567	\$ 16,712	\$ 145
	ECA Surcharge / (Credit)	-	(300)	(300)
	Revenue	16,567	16,412	(155)
Expenses				
	Cost of Power	5,122	4,977	(145)
	Transmission & Distribution Expense	3,169	3,142	(27)
	General & Administrative Expense	2,476	2,571	95
	Depreciation, Tax, Interest & Other	4,024	4,105	81
	Total Expenses	14,791	14,795	4
Margin		\$ 1,776	\$ 1,617	\$ (159)
TIER		2.83	2.66	(0.16)

For more detail, please note the following key points:

- Through Q2, YTD Heating Degree Days (HDD) were up ~41% above normal budgeted levels (Actual of 859 vs. budget of 608), this was primarily in February and March. April, May, and June were strongly in the El Niño category.
- Actual kWh sales were 5.2M kWh above budget (110.8M vs. budget of 105.6M). We expect weather and heating fluctuations to produce dramatic sales revenue volatility and have budgeted based on those assumptions. We will continue to monitor revenue and expenses closely.
- Q2 YTD power purchases were \$145k (2.8%) below budgeted amounts. Actual kWh purchases were 5M kWh above budget (118M vs. budget of 113M).
- Excluding purchased power, Q2 YTD operating expenses were approximately \$149k over budgeted amounts.
- The YTD Energy Cost Adjustment (ECA) through June billing period was a credit to members (and reduction to operating revenue) of \$300,219, or \$15.02 for a member using 1000 kWh/month.

# MEMORANDUM

August 2, 2018

TO: Board of Directors

FROM: Foster Hildreth

RE: KRTA Report Summary

Under separate cover, staff sent the board the complete CFC Key Ratio Trend Analysis (KRTA) report. CFC provides us with an annual recap of statistical information that compares our cooperative with other co-ops across the nation. The analysis is based on our annual RUS Form 7 submittals.

When reviewing these numbers, please note that we are an expensive utility to operate and maintain. We serve 20 individual islands, we have ~87% undergrounded facilities, 26 submarine cables, 11 substations, 4 warehouse facilities, 3 crew facilities and 2 administrative offices.

Considering the above, OPALCO consistently outperforms most of its peers regional and nationwide. Staff will review high-level results at the meeting.

Please note, we have not included the CFC KRTA information in the Board materials or on our website since the CFC Key Ratio Trend Analysis is confidential and proprietary to CFC.

# OPALCO

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KRTA Update - August 2019

# *KRTA* (Key Ratio Trend Analysis)

based on year end 2018 Form 7

# OPALCO Versus Mainland

*OPALCO services area requires more system to serve a similar number of members*

	OPALCO	Mainland Rural Utility
Ratio of Operations to energy cost	2:1	1:2
Underground distributions	90%	Small
Submarine cables	26	0
Substations	11	7
Warehouses (multiple islands)	3	1
Crew stations (multiple islands)	3	1
Member Service Office (multiple islands)	2	1
Islands to service	20	0
Logistical complexity	High	Low

# KRTA Executive Summary

Business Metric Categories	# of Ratios in High 10%	# of Ratios in Low 10%
BASE GROUP (RATIOS 1–5)	0	0
FINANCIAL (RATIOS 6–32)	2	1
REVENUE & MARGINS (RATIOS 33–59)	2	1
SALES (RATIOS 60–76)	0	0
CONTROLLABLE EXPENSES (RATIOS 77–87)	4	0
FIXED EXPENSES (RATIOS 88–102)	3	4
TOTAL EXPENSES (RATIOS 103–107)	2	0
EMPLOYEES (RATIOS 108–113)	2	0
GROWTH (RATIOS 114–121)	2	2
PLANT (RATIOS 122–145)	12	1

# KRTA Executive Summary: Financial Ratios

KRTA #	Key Ratio	OPALCO	US	WA	Peer
11	MDSC (2 of 3 year high average)	3.23	1.96	3.03	2.08
7	TIER (2 of 3 year high average)	3.17	2.87	4.37	2.86
23	Blended Interest Rate (%)	3.3	3.98	4.52	4.11
16	Equity as % of Assets	39.06	45.62	53.28	45.05
24	Annual Capital Credits Retired per Total Equity	3.94	2.54	2.63	2.52

# KRTA Executive Summary: Revenue and Expense Ratios

KRTA #	Key Ratio	OPALCO	US	WA	Peer
89	Power Cost Per kWh Sold (mills)	44.58	71.26	43.99	71.52
103	Total OpEx Per Total kWh Sold (mills)	47.54	23.80	21.56	23.73
36	Electric Revenue Per kWh Sold (mills)	139.07	112.14	92.80	112.15

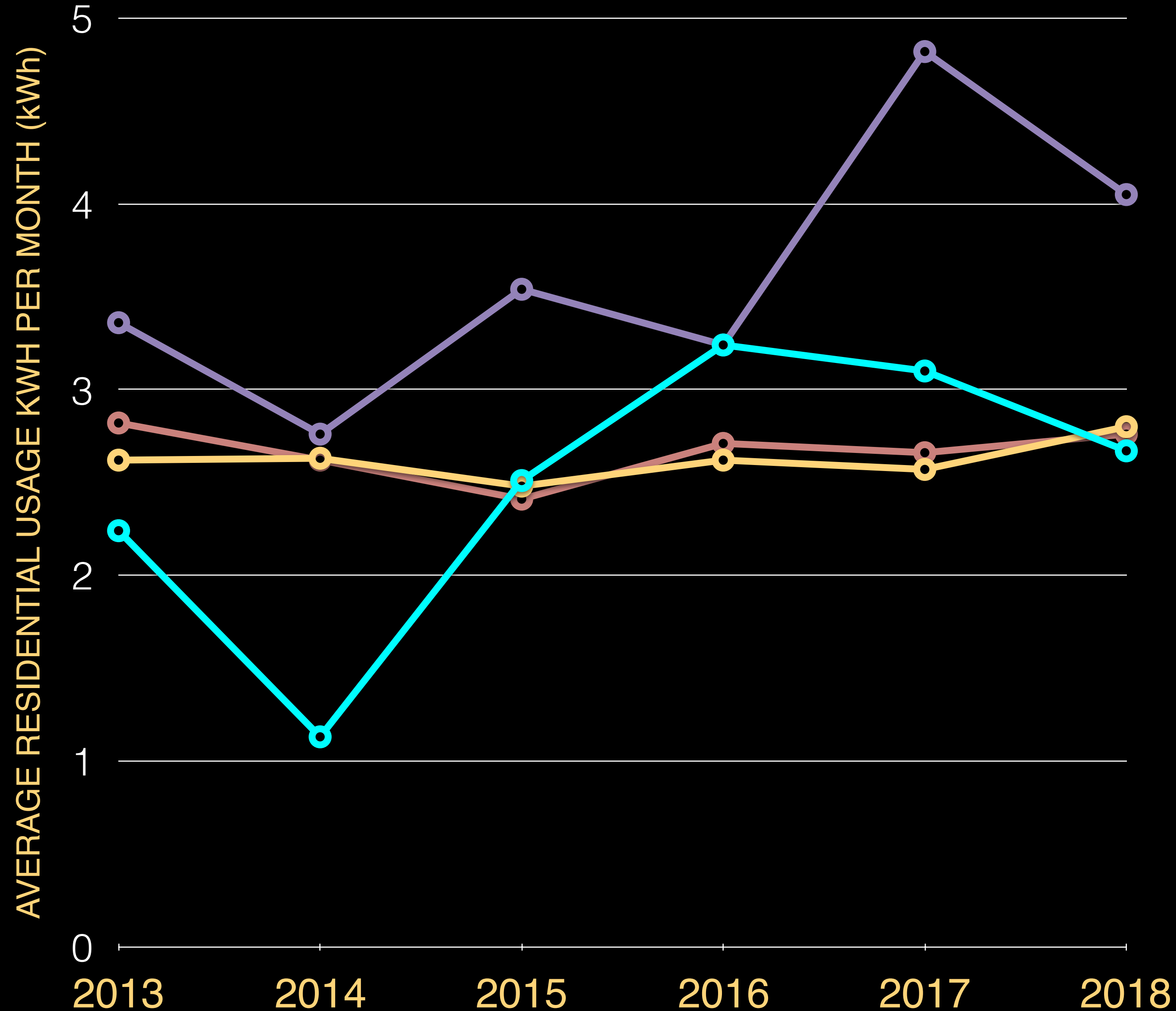
# KRTA Executive Summary: Growth Ratios

KRTA #	Key Ratio	OPALCO	US	WA	Peer
115	Annual Growth in Number of Consumers (%)	-0.80	0.60	1.40	0.60
114	Annual Growth kWh Sold (%)	-2.33	6.49	-2.64	7.19

# KRTA Executive Summary: Plant Ratio

KRTA #	Key Ratio	OPALCO	US	WA	Peer
123	TUP Investments per Consumer	9,498.1	6,310.0	8,138.7	6,149.7

# KRTA Comparables: TIER (KRTA #6)

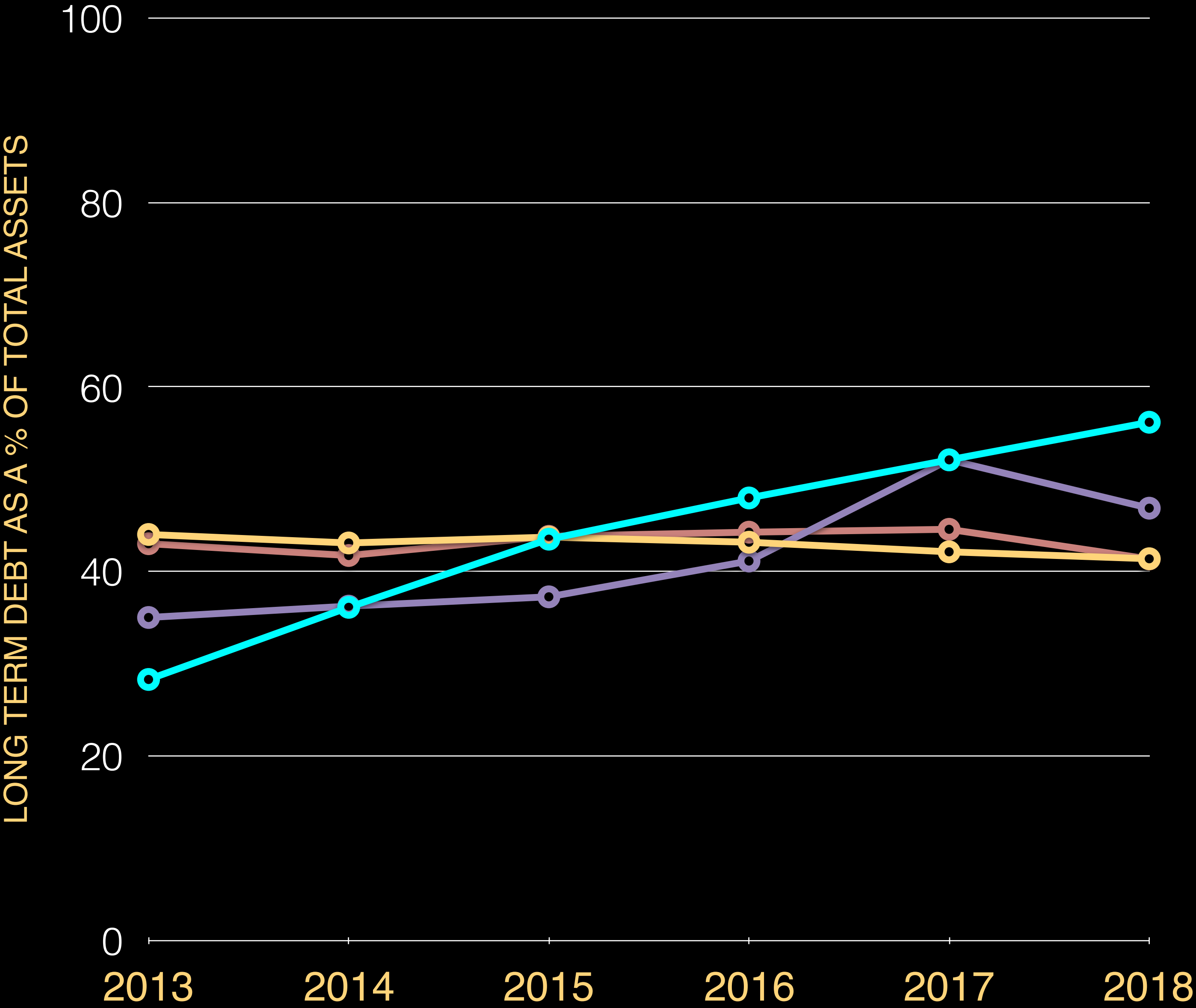


## Notes

- The times-interest-earned ratio (TIER) is a standard measure of co-op financial wellness. While RUS loan agreements require a minimum TIER of 1.25, OPALCO likes to keep the TIER above 2.0.
- OPALCO finances are strong.
- Source notes: US median, WA median, Peer median (similar to OPALCO total members)

OPALCO  
US  
State  
Peer

# KRTA Comparables: Long Term Debt as % of Total Assets (KRTA #19)

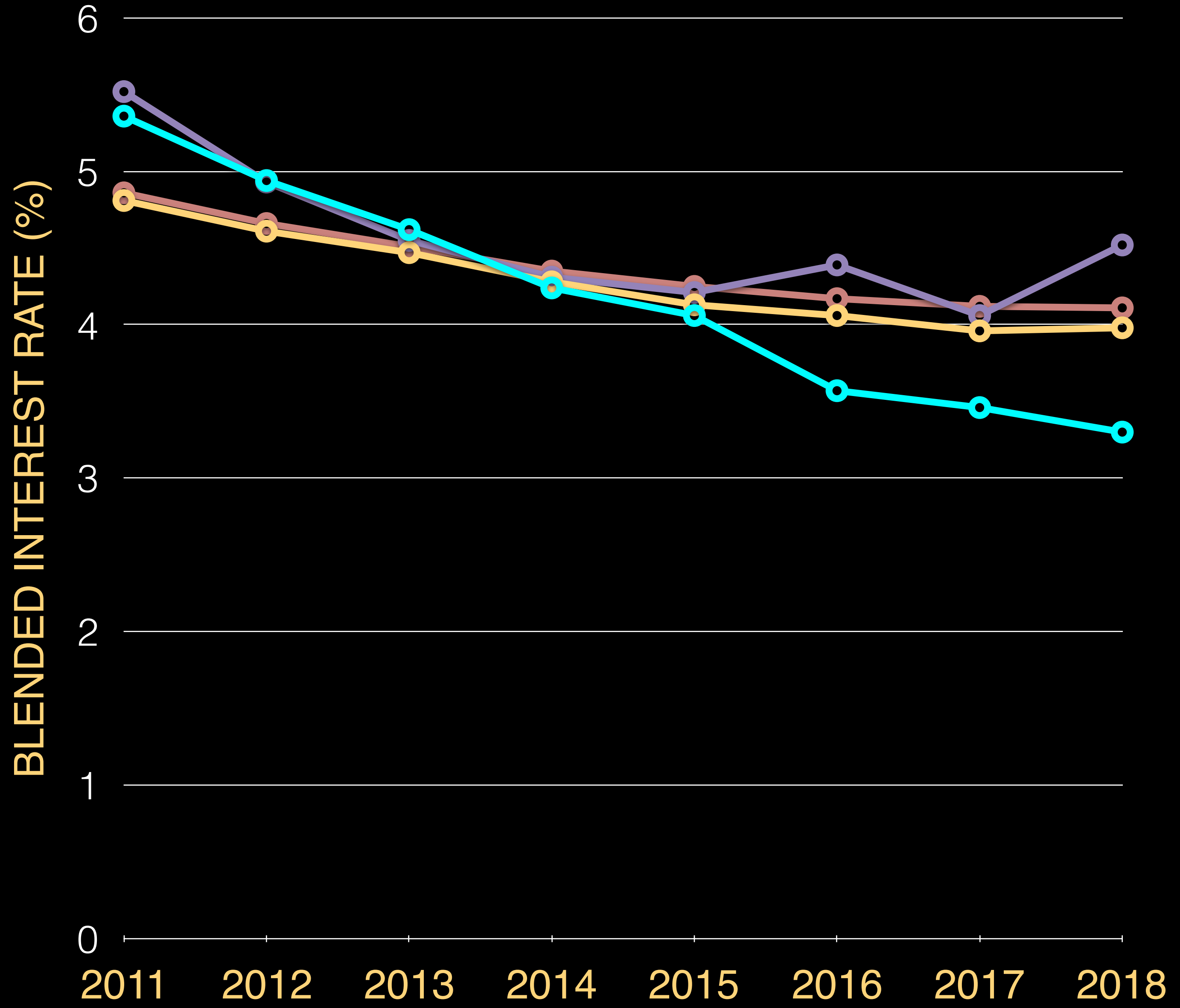


## Notes

- Debt is how co-ops finance capital projects.
- The Lopez San Juan submarine cable project was the largest project this decade
- As with a home mortgage, viable debt should be modest fraction of the value of the home.
- OPALCO debt as a % of total assets is comparable to our US, WA and peer electric coops.
- Source notes: US median, WA median, Size median (similar to OPALCO total members)

- OPALCO
- US
- State
- Peer

# Comparables: Blended Interest Rate Improved (KRTA #23)

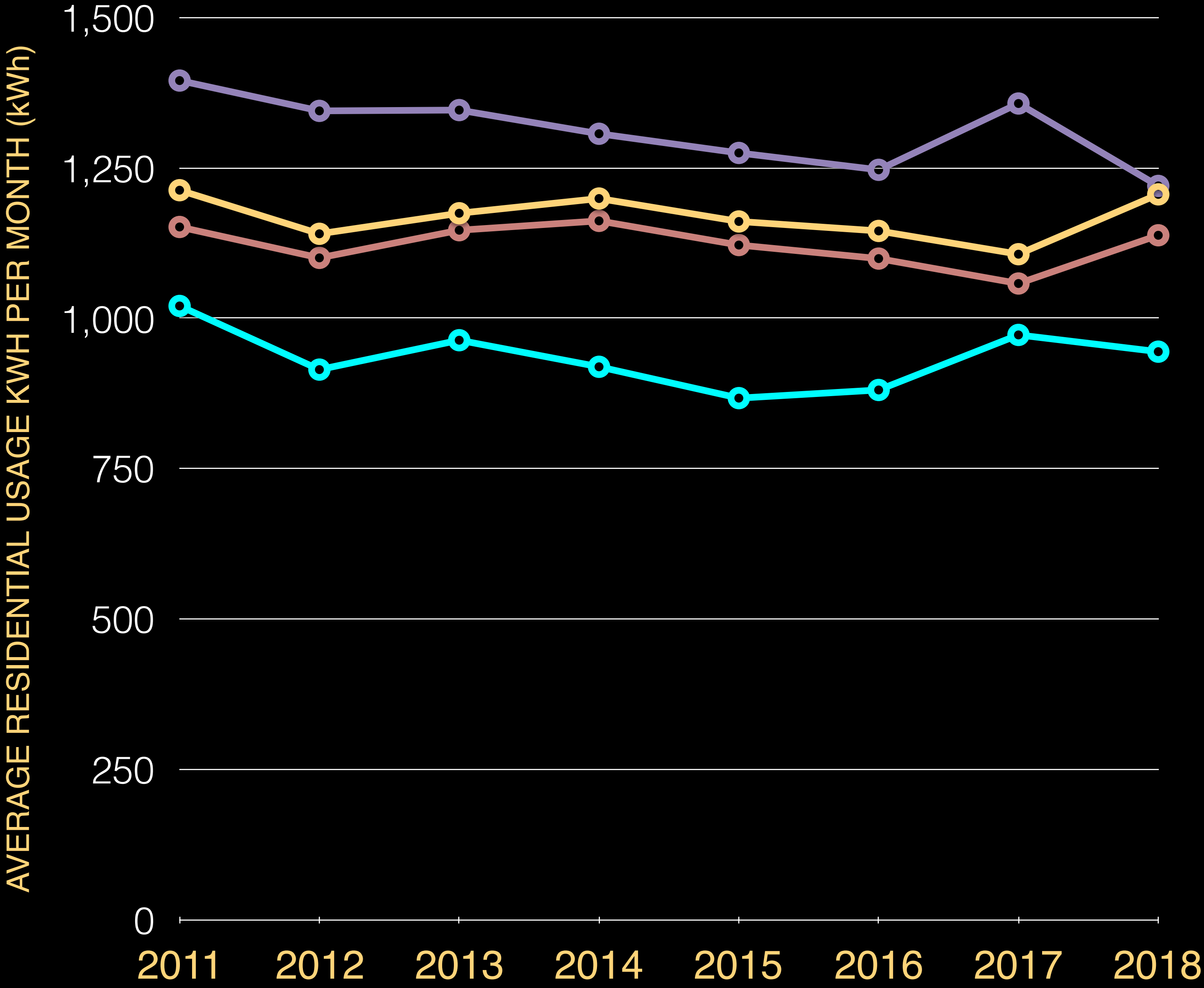


## Notes

- Thanks to active efforts to leverage recession-driven unprecedented low interest rates, the interest rate we pay on our debt is now lower than our mainland counterparts. We used these low rates to solve the internet crisis in the county and finance the submarine cable replacement project and distribution under-grounding project
- Source notes: US median, WA median, Size median (similar to OPALCO total members)

- OPALCO
- US
- State
- Peer

# KRTA Comparables: Member kWh Usage Lower (KRTA #61)

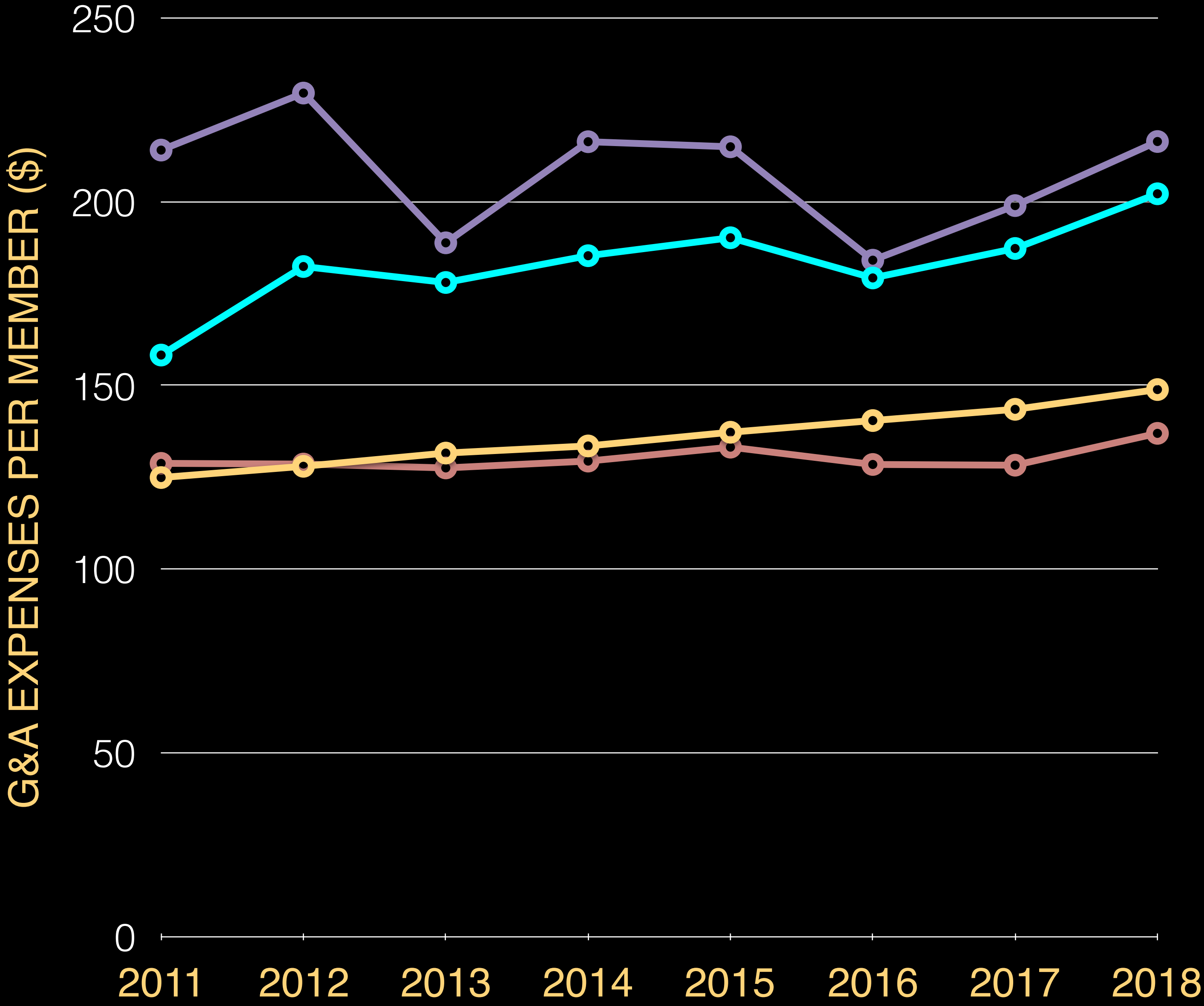


## Notes

- Enhanced by milder climate, OPALCO leads the way in helping members use less energy through investments in energy efficiency, rebates and education. With higher grid and fixed costs, 35% seasonal membership, and low kWh sales, this requires more facility cost be recovered compared to our mainland counterparts.
- Source notes: US median, WA median, Size median (similar to OPALCO total members)

- OPALCO
- US
- State
- Peer

# KRTA Comparables: G&A (KRTA #85)

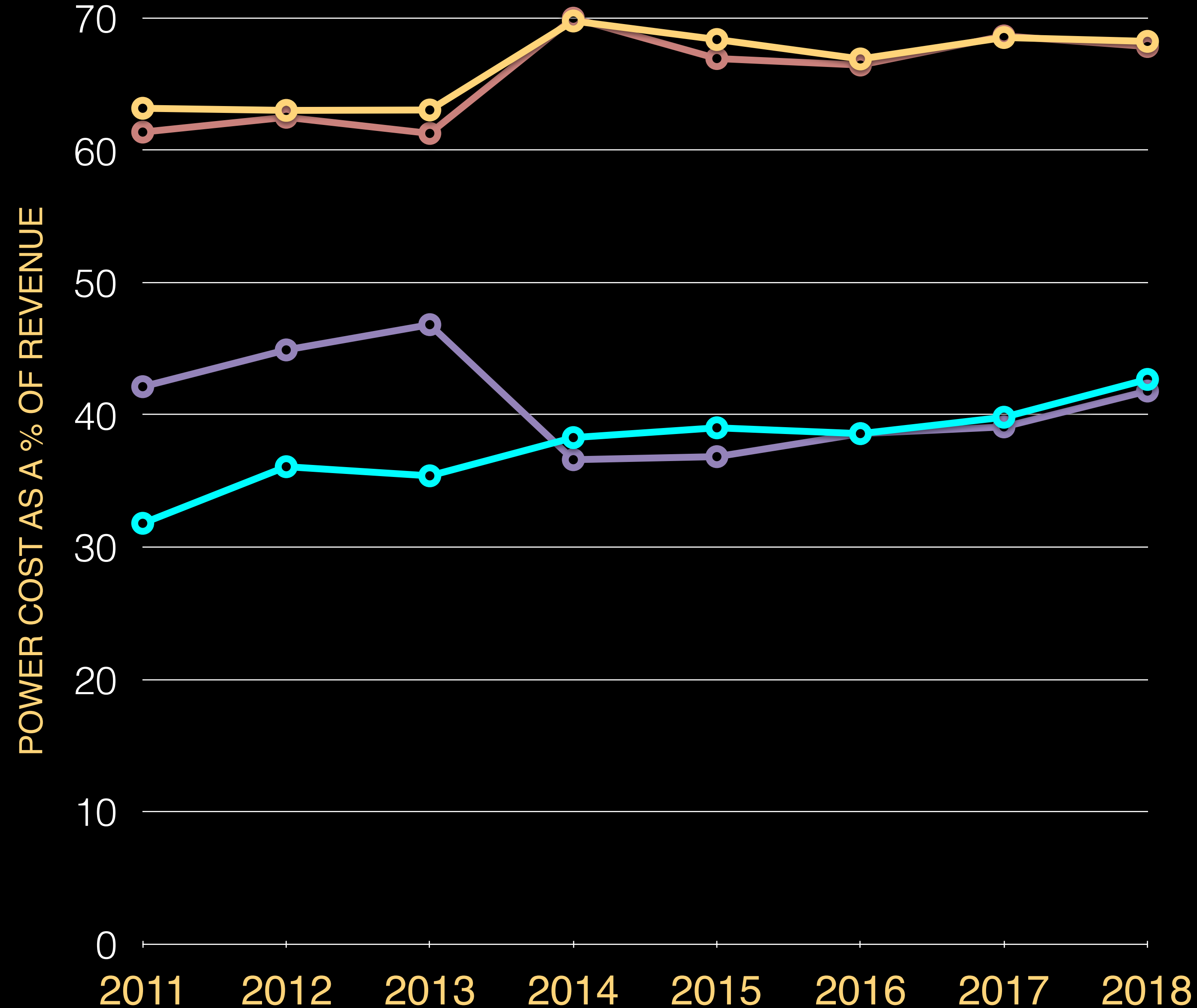


## Notes

- Includes general management, accounting, member services, energy savings, communications, legal, IT, board, audits, consultants, fees, general plant maint.
- Dedicated to running a lean operation, each year our general and administrative costs per member are among the lowest in the state, but higher than national and peer utilities.
- Source notes: US median, WA median, Size median (similar to OPALCO total members)

- OPALCO
- US
- State
- Peer

# KRTA Comparables: Power Cost % Much Lower (KRTA #88)

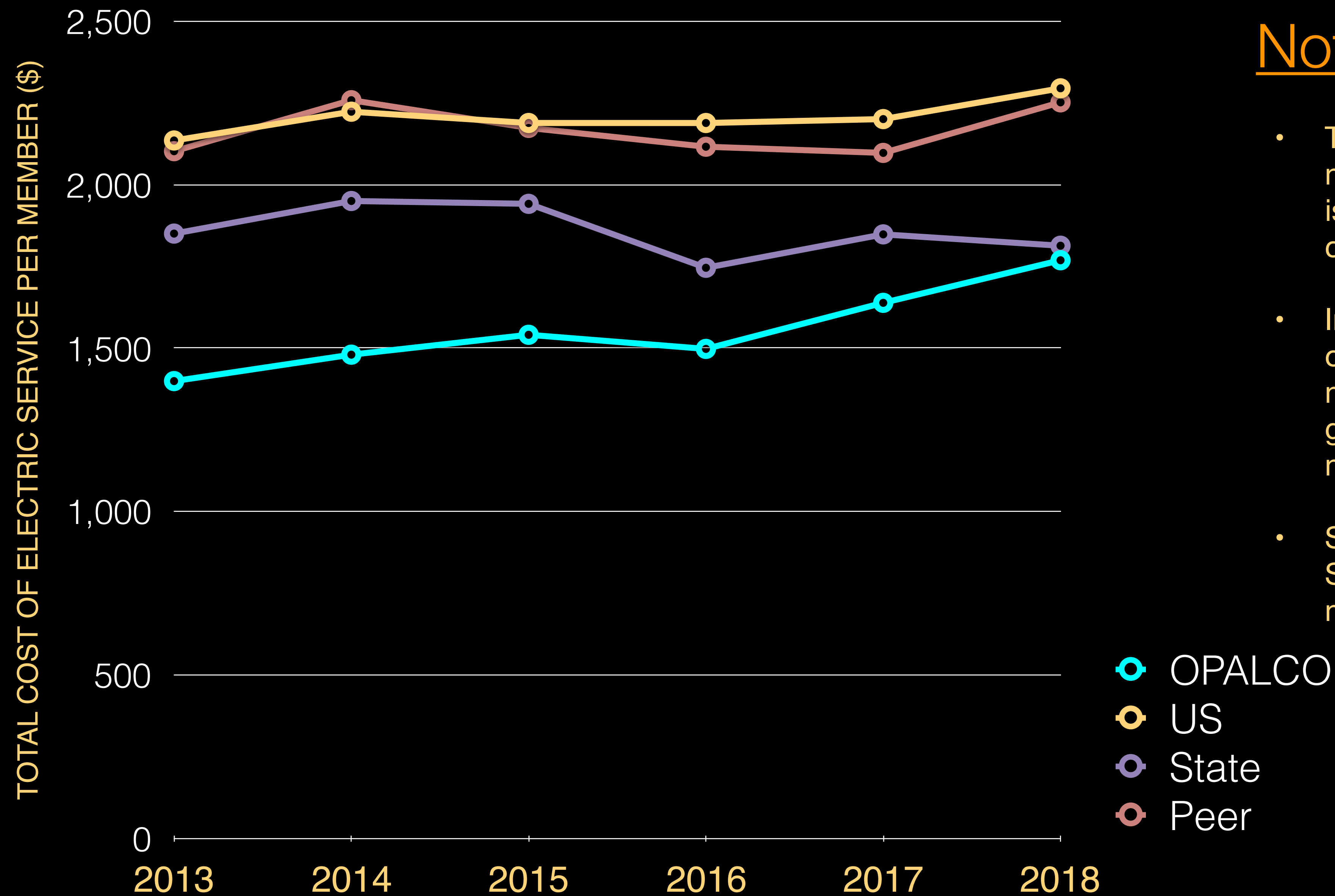


## Notes

- While OPALCO facility costs from our more expensive island grid are much larger than our mainland counterparts, our power costs are comparable to WA and much lower than US and Peer.
- Source notes: US median, WA median, Size median (similar to OPALCO total members)

OPALCO  
US  
State  
Peer

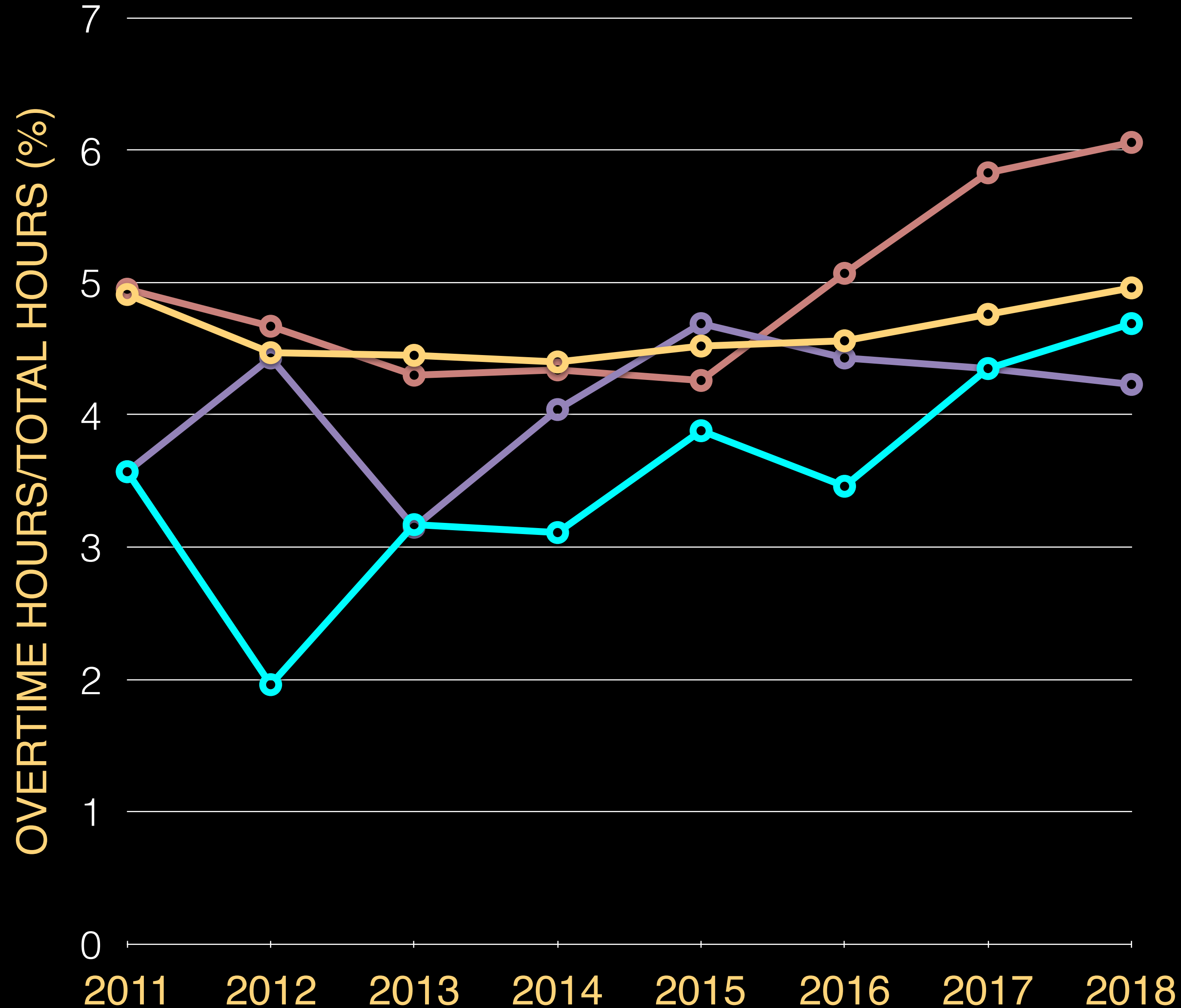
# KRTA Comparable's: Total Cost of Electric Service Per Member (KRTA #107)



## Notes

- This is the average annual electric bill per member. OPALCO's average member bill is lower than typical US, State and Peer co-op bills.
- Inline with our mission, we keep the cost of service as low as possible for our members - despite more complex island grid, OPALCO service costs less than our mainland counterparts.
- Source notes: US median, WA median, Size median (similar to OPALCO total members)

# Comparables: Overtime Hours Lower (KRTA #111)

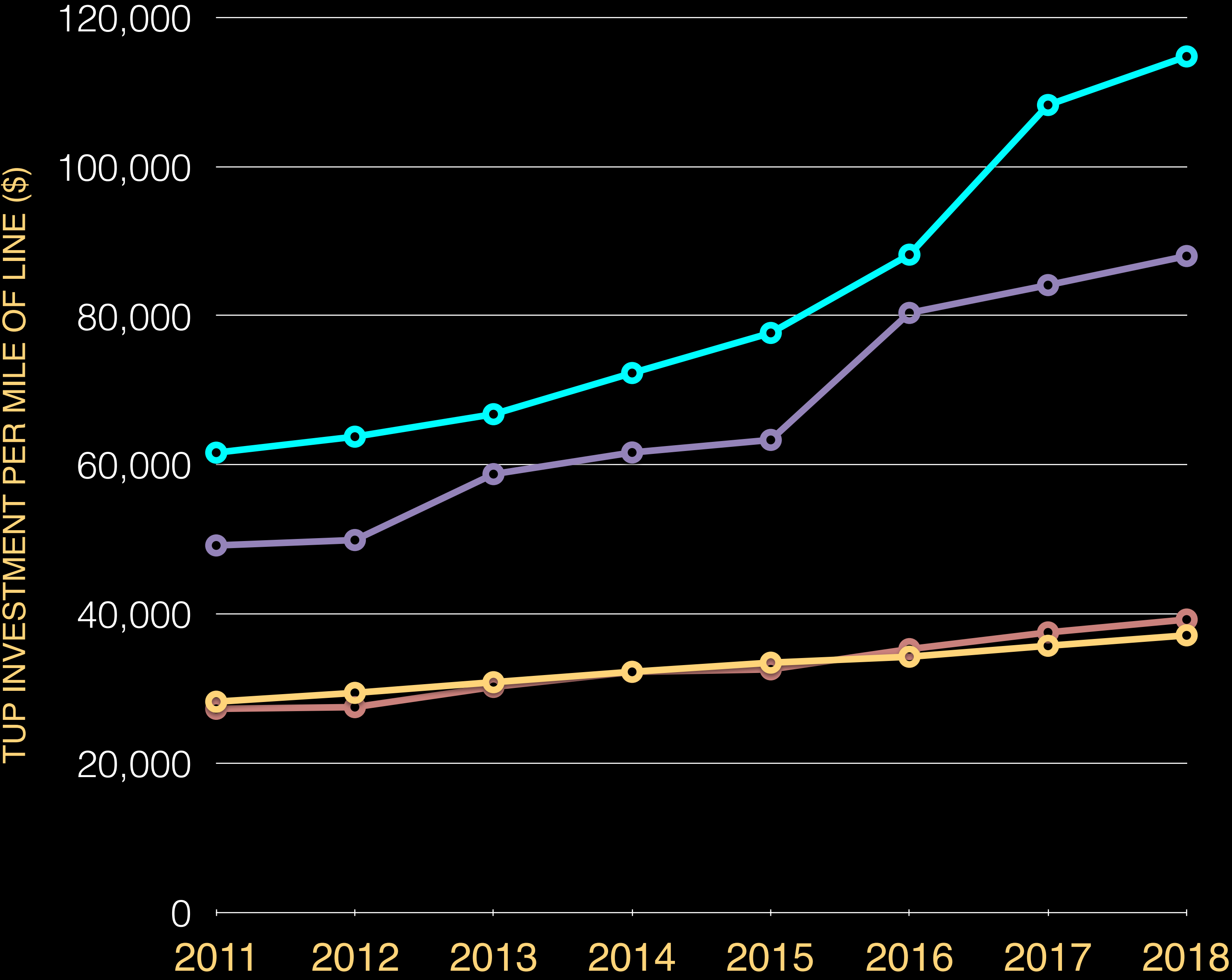


## Notes

- Our crews have the tools & training to work safely and efficiently, keeping overtime low.
- Work efficiency has been enhanced by information technology in the hands of field teams and seasoned management team.
- Source notes: US median, WA median, Size median (similar to OPALCO total members)

OPALCO  
US  
State  
Peer

# KRTA Comparables: Total Utility Plant Investment Per Mile Higher (KRTA #124)

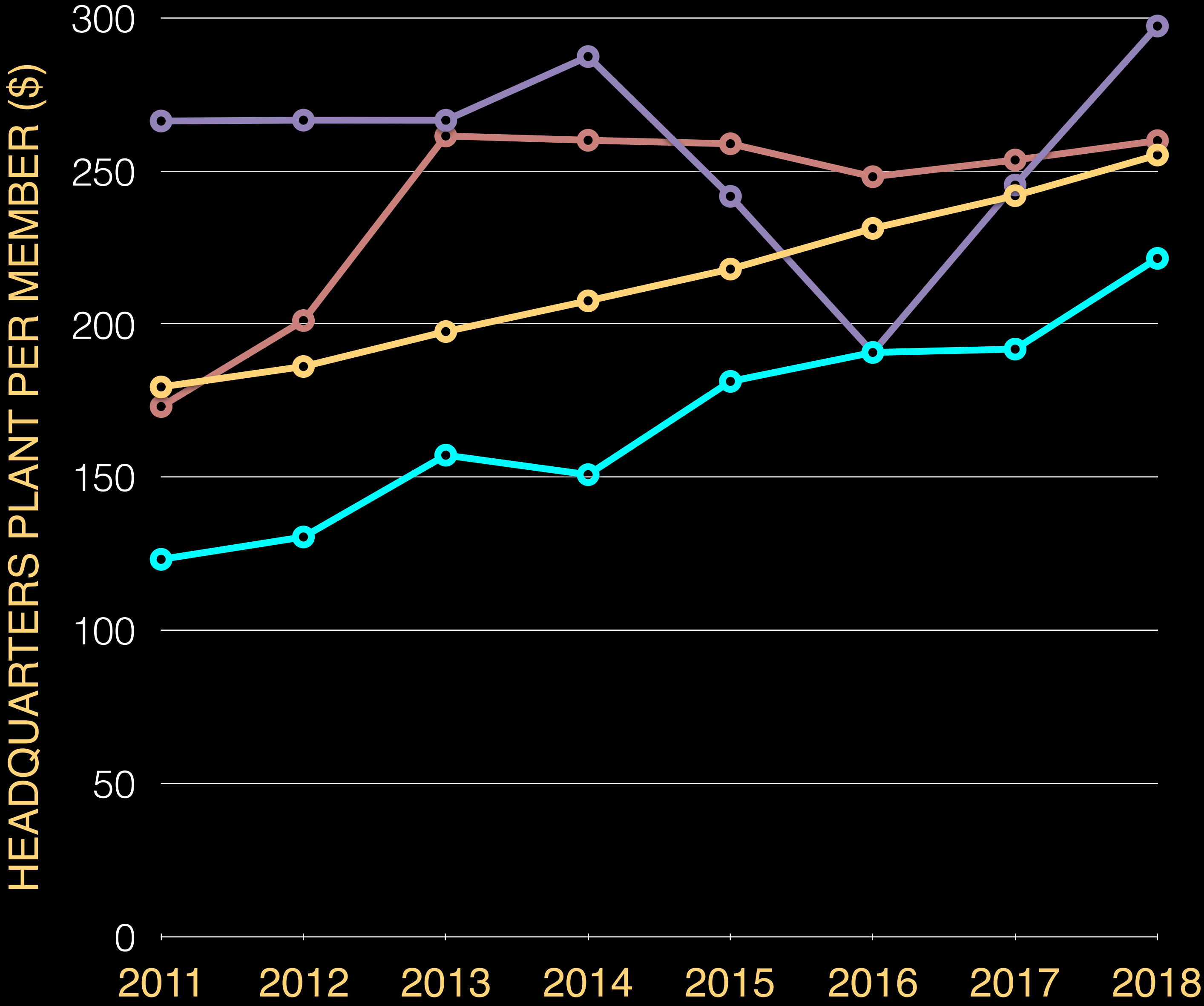


## Notes

- Due to our County's 20 island service area, interconnected with submarine cables and multiple substations, OPALCO invests more to build & maintain the grid than our US, state & size peers
- Lopez San Juan cable was major driver in 2017 and 2018.
- Source notes: US median, WA median, Size median (similar to OPALCO total members)

- OPALCO
- US
- State
- Peer

# KRTA Comparables: HQ Costs Lower (KRTA #133)

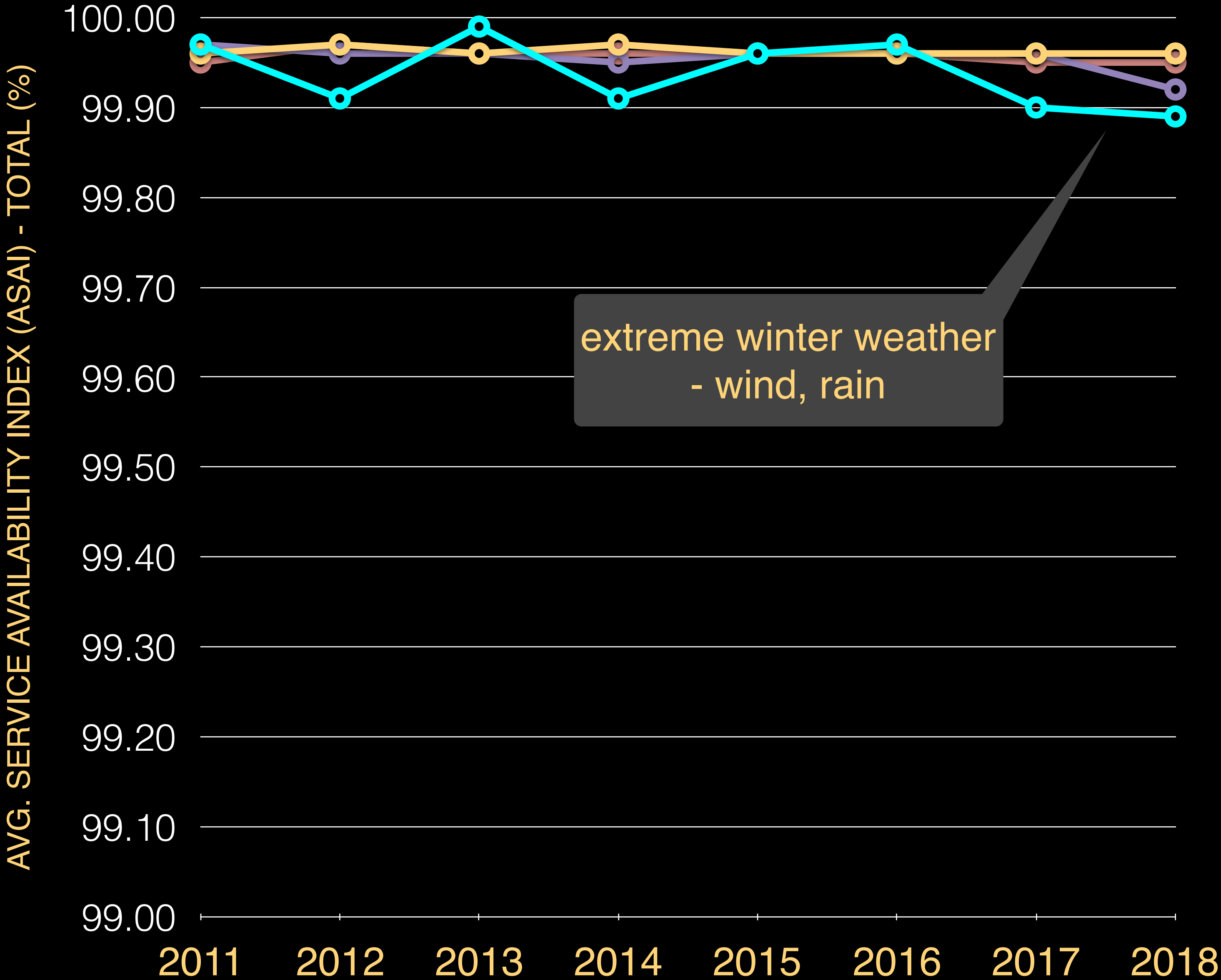


## Notes

- We keep the cost of our HQ facilities low, thanks in part to having staffing levels that have held at about 50, despite growing business, and thanks to the increased skill and training that helps staff work efficiently and effectively.
- Source notes: US median, WA median, Size median (similar to OPALCO total members)

- OPALCO
- US
- State
- Peer

# KRTA Comparables: Reliable (KRTA #145)



## Notes

- OPALCO kept the power on 99.93% of the time in the last 5 years.
- Combination of mainland and local outages driven by increasingly extreme wind and rain.
- Source notes: US median, WA median, Size median (similar to OPALCO total members)

- OPALCO
- US
- State
- Peer

*Thank You*

## GENERAL MANAGER'S REPORT

### August 2019

#### **DASHBOARDS**

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

#### **Finance**

Budget Variance  
Cash  
Power Cost  
TIER/Margin  
Debt/Equity  
Capital  
WIP  
Expense  
Capital Projects

#### **Member Services**

Disconnects  
ECA  
PAL  
Energy Assist  
Community Solar  
Service Additions  
Member Generation

#### **Outage**

Historical SAIDI - Graph  
Historical SAIDI - Figures  
Outage Stats – Monthly  
Outage Stats – Rolling 12 Mth  
SAIDI by Category  
Outage Summary  
Outage Summary - Monthly

#### **CLEAN ENERGY TRANSFORMATION ACT (CETA)**

Washington State passed historic legislation in 2019, [Senate Bill 5116 \(SB5116\)](#), *Washington Clean Energy Transformation Act* (CETA). This bill puts into motion a complex set of interdependent actions intended to speed the transition to clean energy but offers no plan or funding to get there.

CETA dialog is just starting, with anticipated implementation in January 2021. OPALCO feels we are more prepared than most utilities for CETA compliance. CETA will be a topic of discussion in the IRP. Representatives from PNGC and WRECA are scheduled to attend the September meeting to provide the Board with a CETA update.

#### **ENGINEERING, OPERATIONS, AND INFORMATION TECHNOLOGIES**

##### **WIP**

As of August 2, 2019, there are 339 work orders open totaling \$5.72M. Operations has completed construction on 113 work orders, totaling \$1.61M.

##### **Operations**

Crews have been rebuilding three phase lines on San Juan Valley Road to increase the transfer and redundancy abilities between the Friday Harbor and Gravel Pit Substations and the Roche Harbor Substation.

## San Juan Valley Road Construction



### Safety

John Spain, Safety Coordinator of Columbia REA, conducted confined space safety training and rescue certification. This training includes each crew member conducting a vault rescue. The total hours worked without a loss time accident: 169,899 hours (as of July 15<sup>th</sup>).

### Grid Modernization Projects

- 1) **Decatur Battery Energy Storage System (ESS) – WA DOC CEF2 Grid Modernization (~\$1M Grant)** - Staff has finalized the contract with Powin. Project completion is scheduled for end of February based on equipment lead times.
- 2) **Lopez Microgrid – WA DOC CEF3 Grid Modernization (Grant \$ Amount TBD)** – WA DOC has awarded the grant funds and staff anticipates completing the contract with WA DOC by end of Q3.

## FINANCE

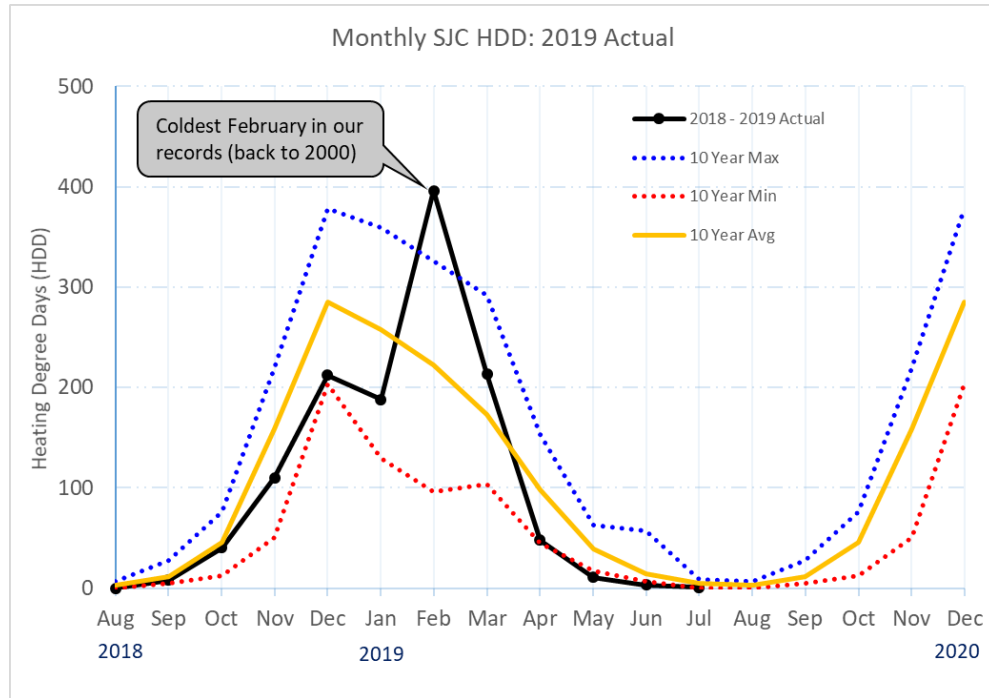
### 2019 Budget Tracking

Energy (kWh) purchases, sales were slightly higher than budgeted through June 2019. Note that complete kWh information for July was not available at the time this report was prepared.

Income Statement Summary (in thousands)		June 2019 YTD		
		Budget	Actual	Variance
	Gross Revenue	\$ 16,567	\$ 16,712	\$ 145
	ECA Surcharge / (Credit)	-	(300)	(300)
	Revenue	16,567	16,412	(155)
Expenses				
	Cost of Power	5,122	4,977	(145)
	Transmission & Distribution Expense	3,169	3,142	(27)
	General & Administrative Expense	2,476	2,571	95
	Depreciation, Tax, Interest & Other	4,024	4,105	81
	Total Expenses	14,791	14,795	4
Margin		\$ 1,776	\$ 1,617	\$ (159)
TIER		2.83	2.66	(0.16)
HDD		608	859	251
kWh Purchases		112,888	117,928	5,040
kWh Sales		105,550	110,770	5,220

## Heating Degree Days (HDD)

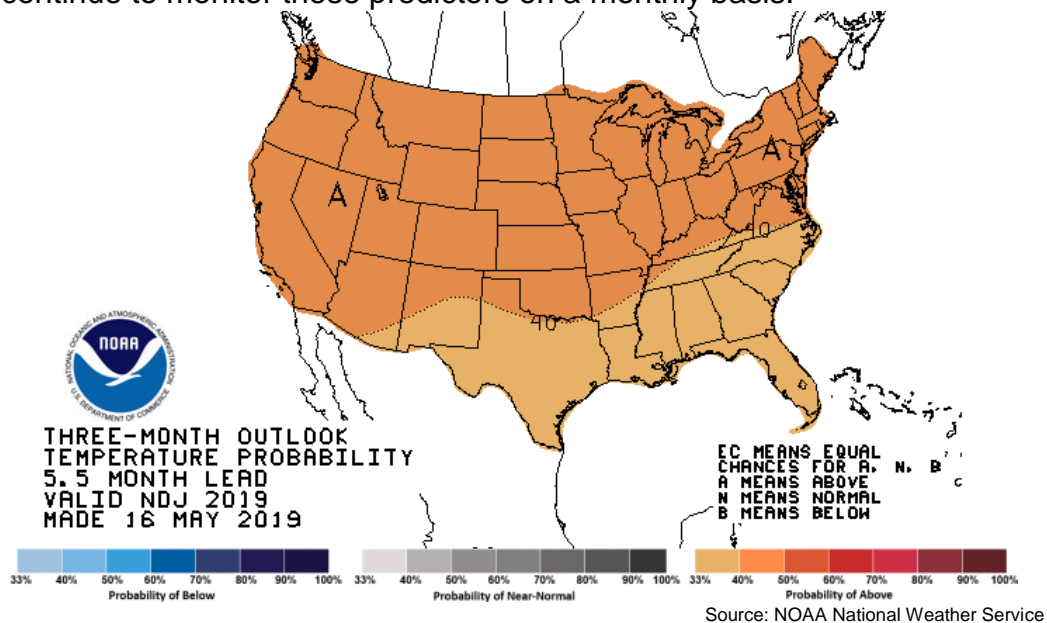
This winter HDD trended towards the warmer El Niño cycle temperatures, driven by prevailing winds from the south. Then February surprised us with extreme cold as the wind and weather shifted, coming from the northeast. April through July have returned to the warmer El Niño pattern.



\*10-year max, min, avg is 2009-2018

## Weather Forecast

The current NOAA '3-month outlook temperature probability' for Nov-Dec-Jan 2019-20 continues to show a 40-50% probability of 'above normal' temperatures in our region for the upcoming winter. We continue to monitor these predictors on a monthly basis.



## Monthly ECA

The calculated amount for the July ECA was a surcharge of +\$0.004239 per kWh which collected \$49,541 in July, or \$4.24 per 1,000 kWh. The YTD ECA through the July billing period is a credit to members (and reduction to operating revenue) of \$250,678, or \$10.78 for a member using 1000 kWh/month. The August billing period ECA will be determined when we receive our power bill (usually around the 10<sup>th</sup>).

## MEMBER SERVICES

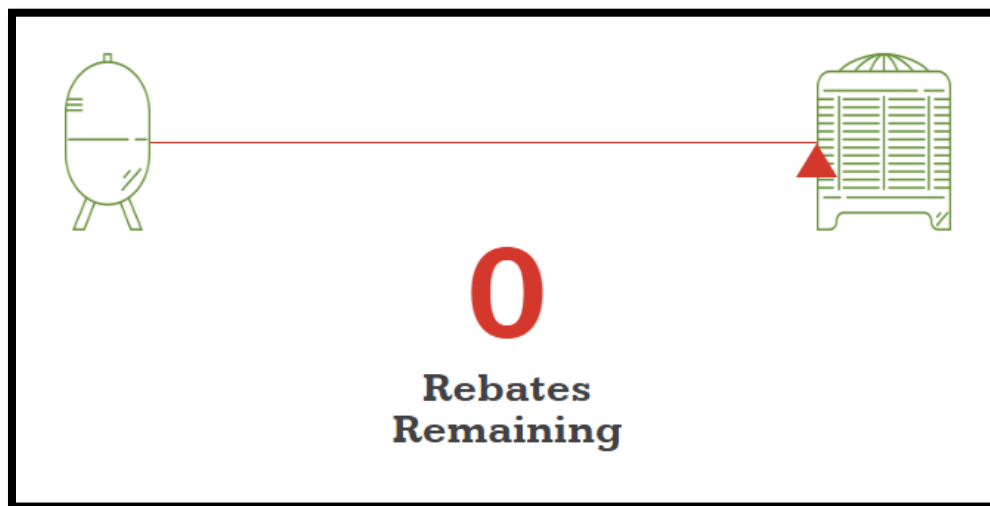
### Energy Assistance

During June 2019, 294 members received \$~10.2k from the Energy Assist program, up 24 participants from the prior month, and down 17 participants compared to June '18. In July there were 310 participants receiving \$~10.7K compared to 311 receiving \$~9.3k in July '18.

### Energy Savings

In June and July 2019 members applied for 47 rebates totaling \$~31.6k, including 12 rebates for beneficial electrification totaling \$~13.5k.

Members have two paths toward ductless heat pump fuel switching measures: on-bill financing or OPALCO funded incentives. Member participation has been good and all of the 2019 OPALCO funded incentives have been allocated (30 rebates at \$1,500.00 each have been allocated). Applications for fuel-switching measures are still being accepted, however they are being waitlisted pending future budget approval. **Please note** that members participating in Switch It Up may be eligible for a \$500 fuel switching rebate, which are still available. There is also a BPA incentive still available for electric efficiency upgrades.



## **Community Solar**

During the June 2019 billing cycle the Decatur Community Solar array produced 70,080 kWh, and 11 kWh per solar unit was credited to member participants. A total of ~\$7.4k was distributed to 276 accounts, including an additional \$~764 for the PAL and Energy Assist programs.

During the July 2019 billing cycle the Decatur Community Solar array produced 68,720 kWh, and 10 kWh per solar unit was credited to member participants. A total of ~\$6.75k was distributed to 276 accounts, including an additional \$~694 for the PAL and Energy Assist programs.

## **COMMUNICATIONS**

### **Switch It Up!**

There are now 58 projects in various stages of participation for a total of ~\$558K in play, with 28 projects complete and billing. Switch It Up! will be promoted at the County Fair and staff continue to speak at civic/community meetings to encourage participation.

### **Youth Rally**

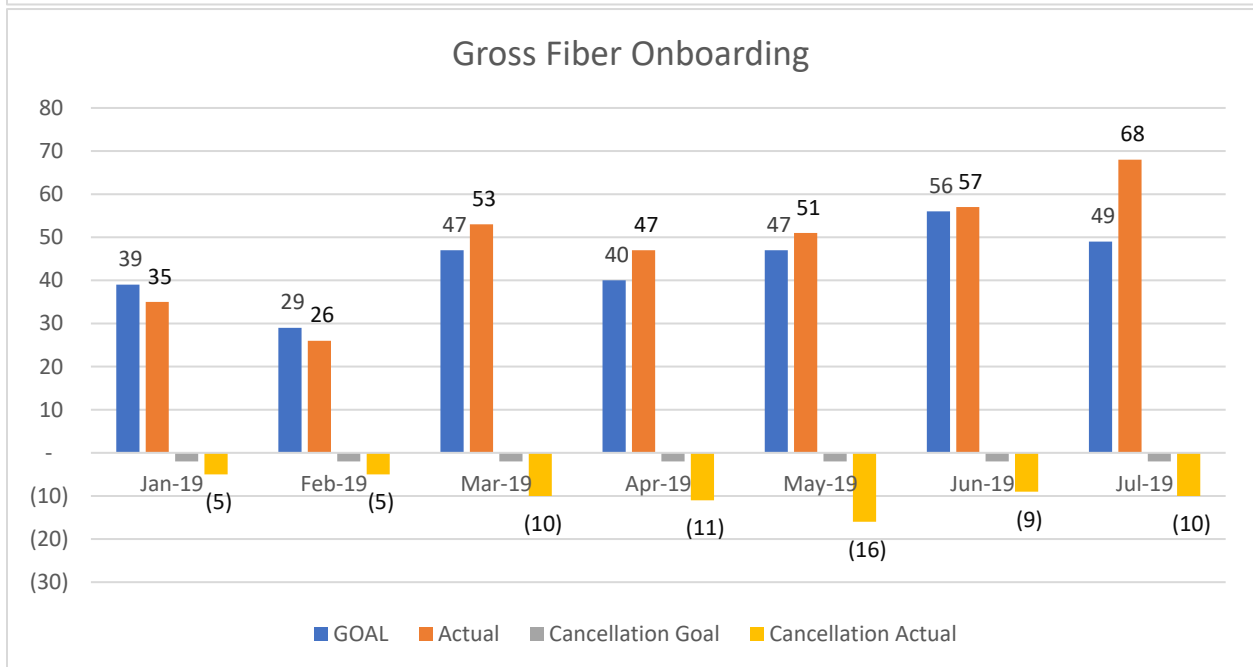
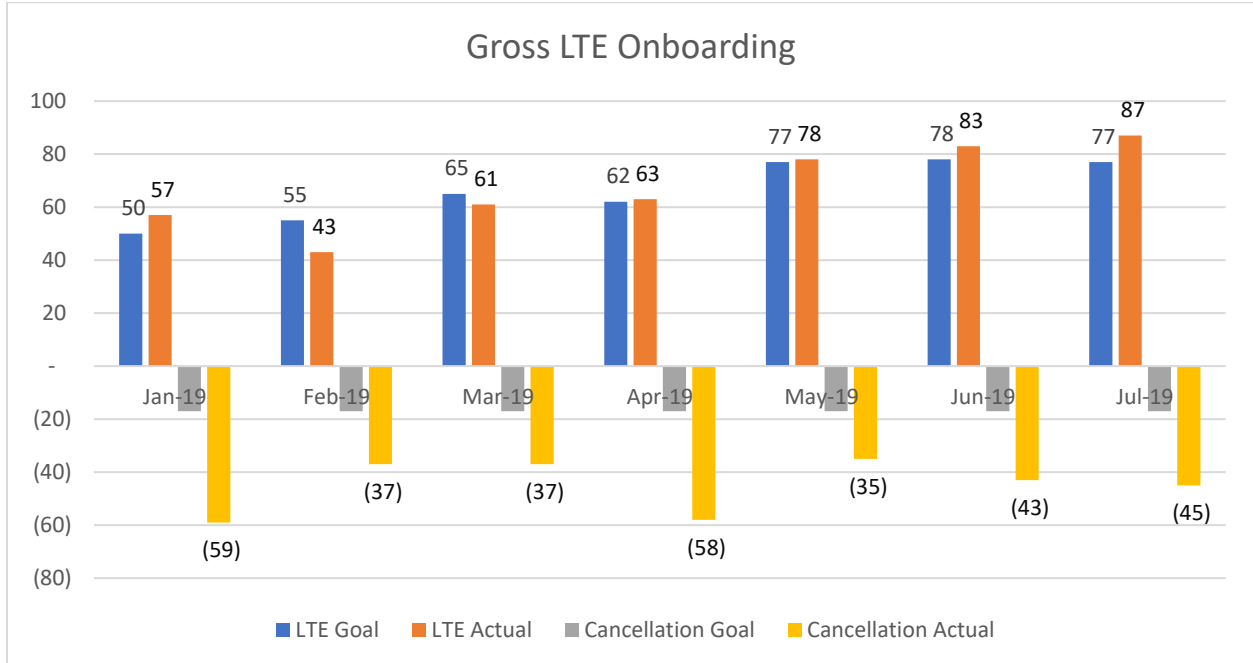
Six San Juan County students attended the ICUA Youth Rally last month (pictured above left to right: Tashi Litch, Spring Street International School, Lichen Johnson and Jose Raya, Lopez High School, Arlo Harold, Anne Marie Ryan, and Presley Clark, Friday Harbor High). Delegates participated in educational classes on cooperative governance and operations, drug awareness panels, and team building exercises. Arlo Harold, the returning director was awarded a \$600 scholarship from ICUA. Presley Clark received a \$300 scholarship. Tashi Litch and Jose Raya were recognized as outstanding delegates. Lichen Johnson was voted as returning director for next year. All students receive a \$1,000 from the Nourdine Jensen Youth Scholarship Program approved by the OPALCO board. Slide show of photos from the Rally:

[www.flickr.com/photos/opalco/albums/72157709864678506](http://www.flickr.com/photos/opalco/albums/72157709864678506)

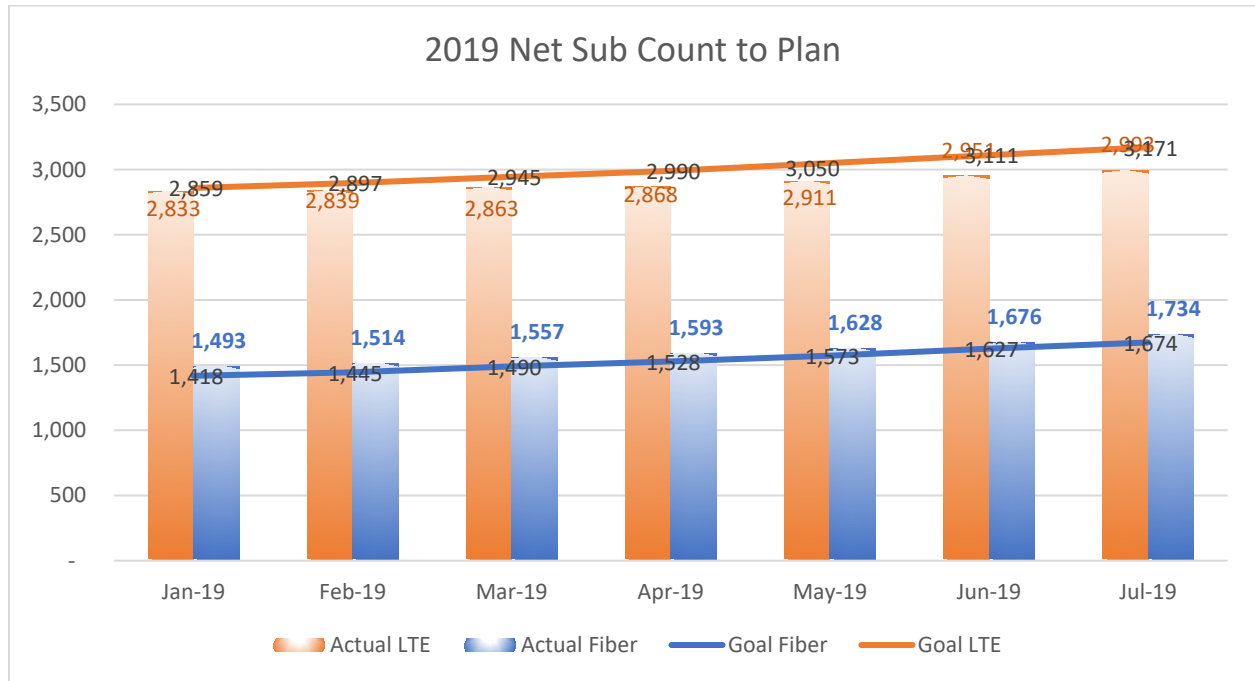


# Snapshot August 2019

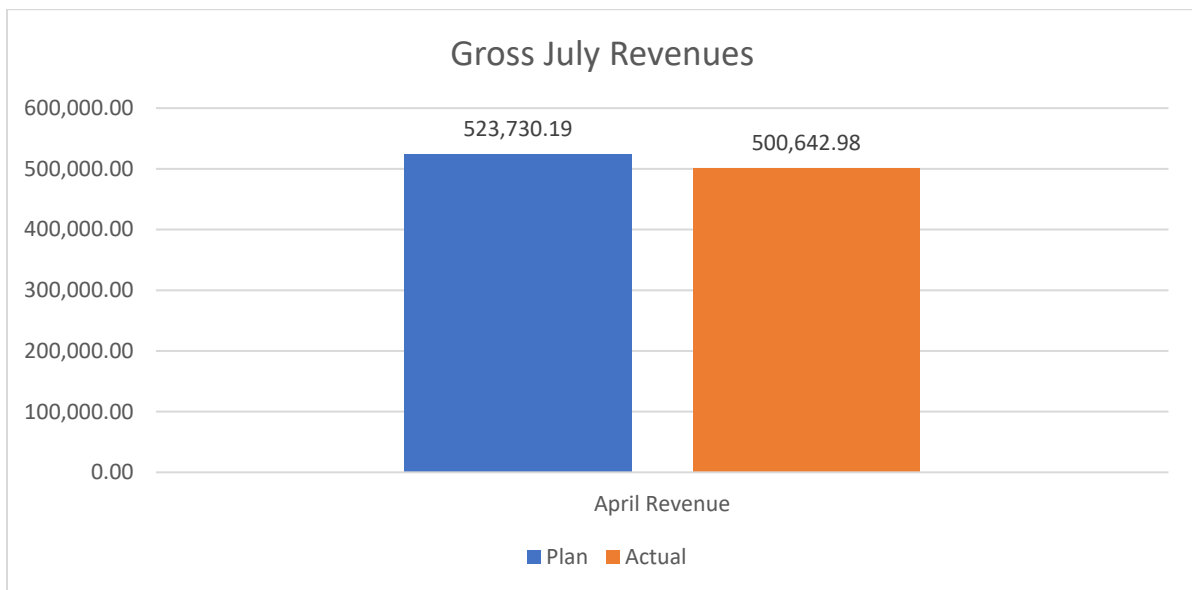
## Gross Subscriber Onboarding as of July31<sup>st</sup>, 2019



## Net Subscribers as of July 31<sup>st</sup> , 2019



## Gross Revenues July 2019



- ❖ We estimate that additional revenue still being accounted for in closeout will bring the actual in line with plan.

# The New Normal for Electricity Markets Conjures Bad Memories; Forewarned, Will We Be Better Prepared?

MAY 17, 2019 JOHN HARRISON

March 1, 2019.

A Friday.

The weekend lay ahead; it was a normal day, right?

Not if you were in the electric power sales business. In that industry, one that is virtually hidden to most people – you flip a switch, the lights come on – the day was anything but normal. And that abnormality was a sign of a rapidly emerging new normal, a new normal that, on that day, was three things for those who supply the electricity we all consume in the Northwest: instructional, a harbinger of the future, and an unsettling reminder of the past.

“On March 1, the warning light came on. What are we going to do about it?” asked Larry Bekkedahl, vice president for grid architecture, integration, and system operations at Portland General Electric. He was a panelist at the annual Northwest Power Markets Conference, a gathering of electric utility executives, utility regulators, and energy organizations in Portland in May. This year, the conference, co-hosted by Energy NewsData, publisher of the weekly energy industry newsletter *Clearing Up*, and CJB Energy Economics, a Seattle consultancy, focused on a theme that captures the moment: Transition in Progress.

Charlie Black, principal of CJB Energy Economics, said the event was an opportunity for people in the industry to talk to each other, compare notes, and discuss change and solutions. “We’ve been talking about change in the industry for years,” said Black, a former power planning director at the Power and Conservation Council. “Now we are in the process of implementing change in the industry.”

The present moment has an element of déjà vu as well as anxiety. That is because some of the same events that played out in the late 1990s and led to the disastrous energy crisis of 2000/2001, when wholesale electricity prices briefly spiked to nearly 100 times normal and stayed high for months, may play out again in the Northwest. The question raised over and over at the Portland conference was, “this time, will we be ready?” The answer is yes, probably, but a number of actions need to be taken to ensure the power system remains reliable, adequate, and affordable.

The primary concern is over what power planners call capacity – the ability to meet (usually) brief periods of high demand for power – a cold snap or a heat wave, for example, when demand rises sharply for hours and sometimes days at a time. The situation in 2019 has eerie similarities to the Northwest energy situation in the late 1990s, when there were

several years of under-investment in energy generating and efficiency resources, which resulted in a reduced West coast supply. The crisis of prices was triggered by the onset of poor hydropower conditions in the late spring of 2000, and lasting into the winter, leading to the second-lowest Columbia River runoff in 2001 since 1929. The near-record low runoff resulted in almost 4,000 average megawatts less hydroelectric energy available than in an average year (4,000 average megawatts would supply about 3.1 million Northwest homes under normal conditions), and even less compared to the relatively wet years of 1995-1999. The crisis was made much worse by a deeply flawed electricity market design in California and opportunism by some of the participants in that market that led to price manipulation. Prices spiked for at least an hour on a cold day in December 2000 at more than \$1,200 a megawatt-hour, compared to a normal price of around \$50. Prices came down but remained high, forcing utilities that needed power to pay high prices, impacting residential, commercial, and industrial ratepayers.

Fast forward to March 1, 2019, when prices exceeded \$900 per megawatt-hour, driven up by lingering cool temperatures, low river runoff, depletion of natural gas storage both in the Northwest and in California (natural gas is the fuel for many power plants), and low electricity exports to the Northwest from California driven by policy requirements of one of the state's largest utilities. The next day, prices relaxed to normal, but for that one day the cost was very high. It was, as Bekkedahl said, a warning.

Concerns about future resource adequacy in the Northwest are growing because several western states including Washington and California have recently passed laws – Oregon is considering one – that address climate change impacts by reducing or eliminating fossil fuels, particularly coal, or creating incentives to limit carbon emissions from electricity production, over the next 10 to 30 years. These new carbon-reduction policies, along with declining cost-effectiveness of coal-fired generation, are leading owners of multiple coal plants to schedule them for retirement. Meanwhile, wind and solar power are leading the charge to increased use of renewable energy in the West. While these renewable resources provide clean, low-cost energy, they are intermittent – producing power when the wind blows and the sun shines. As a result, wind and solar generating plants provide only limited capacity to meet peak requirements, particularly during the winter.

The sense of déjà vu was palpable at the conference. Steve Wright, manager of the Chelan County Public Utility District in Wenatchee, Washington, and administrator of the Bonneville Power Administration during the 2000-2001 crisis, put it bluntly:

“2001 was a failure of public policy,” he said, recalling that he was the one who made the decisions in response to high power prices that shuttered the then-struggling aluminum industry in the Northwest, putting 8,000 people out of work. Today, he said, “temperature excursion is our biggest challenge. If we have more than five days of [extreme heat or cold], we will have challenges.”

How great might the capacity challenge be?

Addressing the Portland conference, John Fazio, the Council's senior power systems analyst, said preliminary results from power system adequacy modeling conducted by the Council show the power supply fails to meet the Council's adequacy standard (5 percent “loss of load” probability) by 2021 because of the impending retirements of some of the coal-fired generators at Boardman, Oregon, and Centralia, Washington. Importantly, the loss of load probability does not mean the probability of a blackout, but rather the likelihood of a shortfall (not necessarily an outage) occurring anytime in the year being examined.

The loss-of-load probability increases from 6 percent in 2021 to 7 percent in 2022, and to 8 percent in 2024. The analysis shows that the region will need about 800 megawatts of new capacity to maintain adequacy through 2024. If some of the coal-fired generators at the Jim Bridger plant in Wyoming and the two other generators at the Centralia plant retire by 2024, as currently planned, the probability would increase to about 30 percent a situation similar to what happened in the 1990s that led to the West Coast energy crisis, when the problem was not retiring existing plants but just not building enough new ones. He stressed that these results are worst-case – assuming the retired generating capacity is not replaced – and preliminary and are likely to change when a new adequacy model is used for the analysis, but the potential problem won't disappear.

### What to do?

Because of new state laws reducing or eliminating fossil fuel power generation, the list of solutions is “fairly short if you can't build dispatchable capacity,” said Randy Hardy, who was administrator of the Bonneville Power Administration through most of the 1990s and the keynote speaker at the conference. Today, Hardy is a Seattle-based energy consultant. Hardy praised the region's best-in-the-nation energy efficiency accomplishments over the last 30 years, which have reduced the need for new generating plants and helped ease peaks in demand. But while efficiency can be seen as a capacity resource, in that it has the ability to reduce peak loads, its output can't be increased when needed as with a power plant. Thus, ensuring reliable capacity remains an issue.

Hardy offered four solutions: 1) Development of a voluntary, “common resource adequacy standard,” for the West, a task he said will be difficult given the number of utilities that share power and transmission lines; 2) utility-scale batteries and pumped storage facilities that can fill in the gaps when wind and solar power aren't available; batteries are becoming more and more powerful, but are expensive, and pumped storage, while it is well understood, is expensive and difficult to site; 3) new high-voltage transmission lines to make it easier to move power around the region and the West; and 4) refocus long-term planning from day-to-day energy to capacity – “more power from renewables makes energy planning more difficult,” he said. This could include development of a West-wide, short-term market for capacity, an effort that already is underway.

Hardy added a fifth: “Pray for rain and mild weather, that's my best solution,” he said to polite laughter from the audience. But turning serious, he added, “We have to do something and we have to do it quickly. We have a 30-50 percent chance of a major outage in the next 10 years. If that happens, renewables will be blamed. Utilities will be blamed. That's not acceptable, and we've got to be better than that.”

TOPICS: [ENERGY](#)

## Related News