

ORCAS POWER & LIGHT COOPERATIVE

POLICY 23

CONFLICT OF INTEREST

23.1 GOALS AND OBJECTIVES

This policy addresses conflict of interest issues relevant to the Board of Directors, Management, and staff of OPALCO.

23.2 DEFINITIONS FOR PURPOSES OF THIS POLICY

As used in this Policy, and unless the context requires otherwise:

23.2.1 Board means the Orcas Power & Light Cooperative Board of Directors.

23.2.2 Business Opportunity means an opportunity to engage in a business activity, other than an opportunity offered to all similarly situated Cooperative members, of which:

- An Official becomes aware in connection with performing Official functions; under circumstances reasonably indicating that the opportunity was expected to be offered to Cooperative or a Subsidiary; or through using Cooperative or Subsidiary information or property if the Official should reasonably expect the opportunity to interest Cooperative or the Subsidiary; or
- An Official becomes aware and knows or is closely related to a business in which Cooperative or a Subsidiary is engaged or expects to engage.

23.2.3 Conflicting Interest Transaction means a transaction or proposed transaction by Cooperative or a Subsidiary, other than the payment of Official compensation or provision of Official benefits, and other than a transaction offered to all similarly situated Cooperative members:

- To which an Official is a party; or
- For which, at the time the Board considers the transaction, or at the time Cooperative or the Subsidiary becomes legally obligated regarding the transaction, an Official had knowledge and a Material Financial Interest known to the Official; or an Official knew that a Related Person was a party or had a Material Financial Interest.

23.2.4 Cooperative means Orcas Power & Light Cooperative

23.2.5 Director means a member of the Board.

23.2.6 Disinterested Director means a Director who, at the time the Board acts regarding income, employment, competition, a Conflicting Interest Transaction, or a Business Opportunity:

- Is not associated with the income, employment, or compensation; is not engaged in the Transaction; and is not taking advantage of the Opportunity; and
- Does not have a relationship with an Official associated with the income, employment, or compensation; engaged in the Transaction; or taking advantage of the Opportunity, which relationship would reasonably be expected to impair the objectivity of the Director's judgment regarding the income, employment, competition, Transaction, or Opportunity.

23.2.7 Key Employee means a Cooperative employee, other than a Director or Officer, who:

- Receives more than \$150,000 in compensation reported to the Internal Revenue Service on Form W-2;
- Has responsibilities, powers, or influence over Cooperative similar to a Director or Officer; manages a segment or activity of Cooperative representing ten percent or more of Cooperative's activities, assets, income, or expenses; or has or shares authority to control or determine ten percent or more of Cooperative's capital expenditures, operating budget, or employee compensation; and
- Is one of the twenty employees with the highest compensation reported to the Internal Revenue Service on Form W-2.

23.2.8 Manager means the individual with ultimate responsibility for implementing the Board's decisions or supervising Cooperative's management, administration, or operation, regardless of job title.

23.2.9 Material Financial Interest means a financial interest in a transaction reasonably expected to impair the objectivity of an Official's judgment regarding the transaction.

23.2.10 Officer means an individual:

- Appointed by the Board, or by another Officer authorized by the Board or by Cooperative's articles of incorporation or bylaws; and

- Serving as a chief executive, operating, financial, legal, or accounting officer; being in charge of a principal business unit; or performing a major policymaking function.

An Officer includes the Manager and the individual with ultimate responsibility for managing Cooperative's finances.

23.2.11 Official means a Director, Officer, or Key Employee.

23.2.12 President means a Director who is Chair of the Board.

23.2.13 Policy means Orcas Power & Light Cooperative's Conflict of Interest Policy.

23.2.14 Related Entity means an entity, other than Cooperative, a Subsidiary, or an entity of which Cooperative is a member:

- Controlled by an Official or an Official's Related Individual;
- In which an Official owns more than ten percent of the entity's shares or interests;
- For which an Official is a member of the governing body;
- For which an Official is a trustee, guardian, personal representative, or similar fiduciary;
- Employing an Official; or
- Controlled by an entity employing an Official.

23.2.15 Related Individual or person means an individual or person:

- Who is the spouse of an Official;
- Who is an immediate family member;
- Residing with an Official;
- For whom an Official is a trustee, guardian, personal representative, or similar fiduciary; or
- Employing an Official.

23.2.16 Subsidiary means an entity Controlled by Cooperative.

23.3 EMPLOYMENT AND INCOME

A Director may not be employed by the Cooperative or subsidiary.

- 23.3.1 Compensation. Director compensation, including retirement or insurance income from Cooperative are not considered employment income or compensation for purposes of this Policy;
- 23.3.2 A Director may not directly or indirectly receive more than twenty-five percent of the Official's annual gross income from another Official; and
- 23.3.3 May not have a Related Individual employed by the Cooperative or a Subsidiary.

23.4 COMPETITION

An Official may not advance the Official's pecuniary interests, or have a Related Person that advances the Related Person's pecuniary interests, by competing with Cooperative or a Subsidiary, is employed by a competing business, has a material financial interest in such competing business, or has a material financial interest in a vendor, consultant, or supplier of the Cooperative that is material to the Cooperative or the financial interest held is significant and material to the vendor, consultant or supplier, unless:

- 23.4.1 The Board of Directors determines that it would be in the Cooperative's best interest for a Director or a Related Person to continue in such position; and there is no reasonably foreseeable harm to Cooperative or the Subsidiary from the competition;
- 23.4.2 Any benefit that the Cooperative or the Subsidiary may reasonably expect to derive from the competition outweighs any reasonably foreseeable harm to Cooperative or the Subsidiary from the competition; or
- 23.4.3 The Official discloses the competition to the Board and a majority of Disinterested Directors authorizes or ratifies the competition.

23.5 CONFLICTING INTEREST TRANSACTION

An Official may not engage in a Conflicting Interest Transaction unless:

- 23.5.1 To the extent unknown by Disinterested Directors, the Official discloses the existence and nature of the Official's conflicting interest and all facts known to the Official regarding the Transaction that a Disinterested Director would reasonably believe to be material in acting regarding the Transaction; Disinterested Directors deliberate and vote regarding the Transaction outside the presence of, and without participation by, the Official; and a majority of Disinterested Directors, but not less than two, authorizes the Transaction; or

- 23.5.2 According to the circumstances at the time the Board considers the Transaction, or at the time Cooperative or the Subsidiary becomes legally obligated regarding the Transaction, the Transaction, as a whole, benefits Cooperative or the Subsidiary, considering, as appropriate, whether the Transaction was fair in terms of the Official's dealings with Cooperative or the Subsidiary and whether the Transaction was comparable to what might have been obtained in an arm's length transaction, given the consideration paid or received by Cooperative or Subsidiary.

23.6 BUSINESS OPPORTUNITY

An Official may not directly or indirectly take advantage of a Business Opportunity unless, before the Official becomes legally obligated regarding the Opportunity:

- 23.6.1 The Official informs the Cooperative or Subsidiary of the Opportunity; and
 - 23.6.1.1 To the extent unknown by Disinterested Directors, the Official discloses the existence and nature of the Opportunity and all facts known to the Official regarding the Opportunity that a Disinterested Director would reasonably believe to be material in acting regarding the Opportunity; Disinterested Directors deliberate and vote regarding the Opportunity outside the presence of, and without participation by, the Official; and a majority of Disinterested Directors, but not less than two, disclaims interest in the Opportunity.

23.7 INSIDER PECUNIARY BENEFIT

An Official may not use Cooperative or Subsidiary property, material private information, or position to secure pecuniary benefit unless:

- 23.7.1 Value is given for the use and assuming the use is a Conflicting Interest Transaction, the Official could engage in the Transaction under this Policy;
- 23.7.2 The use is payment of compensation or provision of benefits;
- 23.7.3 The use is of information only and the use is not connected with trading securities, is not a use of proprietary information, and does not harm Cooperative or Subsidiary;
- 23.7.4 Assuming the use is a Conflicting Interest Transaction, a majority of Disinterested Directors authorizes the Transaction under this Policy; or

23.7.5 The benefit is received as a Cooperative member; made available to all other similarly situated Cooperative members; and lawful.

23.8 PUBLIC OFFICE

Any director shall be ineligible to remain a director of the Cooperative who currently holds public office or serves on a governmental appointment or commission whose charter, duties, or scope of influence intersects with the business of the Cooperative or its subsidiaries or affiliates, or whose immediate family member holds public office or serves on a governmental appointment or commission whose charter or scope of influence materially intersects with the business of the Cooperative or its subsidiaries unless the Board of Directors determines that it would be in the Cooperative's best interest for such Director or his or her family member to continue to serve in public office, and the Board determines that there is no reasonably foreseeable harm to Cooperative or the Subsidiary from such service, or there is a benefit to the Cooperative.

23.9 COMPLIANCE AND ENFORCEMENT

The Board interprets and enforces this Policy. Cooperative's legal counsel must annually review this Policy with all Officials. The minutes of all Board meetings should record all disclosures, votes, authorizations, and other actions taken under this Policy. Each Official must annually complete and sign the Conflict of Interest Certification and Disclosure Form attached to this Policy and deliver the completed and signed Form to President or Manager. If an Official discovers any information or fact that could impact another Official's compliance with this Policy, then the Official must disclose the information or fact to President or Manager immediately.

The Manager or President receives a Form disclosing any information or fact that could impact an Official's compliance with this Policy, then, respectively, Manager must deliver the Form to President and President must distribute the Form to the Board. If Manager or President receives or discovers any other information or fact that could impact any Official's compliance with this Policy, then, respectively, Manager must disclose this information or fact to President and President must disclose this information or fact to the Board, and may seek the advice of legal counsel.

Upon receiving or discovering any information or fact that could impact a Director's compliance with this Policy, the Board must:

- Provide the Director an opportunity to comment orally and in writing regarding the information or fact, and an opportunity to be represented by legal counsel; and
- Determine whether the Director complies with this Policy.

If the Board determines that a Director does not comply with this Policy, then:

- The Board must provide the Director an opportunity to comply with this Policy within thirty days; and
- If the Director does not comply with this Policy within thirty days, then, as allowed by law, the Board must sanction, disqualify, and/or remove the Director.
- To the extent a Director may seek to remove another Director, the policy and procedure in Policy 1, Section 1.16 and the Bylaws shall be used to determine the proper enforcement procedures.

Upon receiving or discovering any information or fact that could impact any other Official's compliance with this Policy, the Board must act as appropriate or authorize the Manager to act as appropriate.

RESPONSIBILITY

It shall be the responsibility of the general manager and his staff to implement this policy. Deviations there from shall be reported to the Board of Directors.



Foster Hildreth, General Manager

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