

MINUTES OF THE BOARD MEETING
OF THE BOARD OF DIRECTORS
OF
FALL RIVER RURAL ELECTRIC COOPERATIVE, INC.

October 23, 2017

The meeting of the Fall River Rural Electric Cooperative, Inc. Board of Directors was held on Monday, October 23, 2017, at the Driggs office of Fall River Rural Electric in Driggs, Idaho. Having determined a quorum was present, President Schmier called the meeting to order at 10:03 a.m. Executive Assistant Joni Amen recorded the minutes. The invocation was given by Attorney Jerry Rigby. The Pledge of Allegiance was recited. Guests were introduced.

ATTENDING OFFICERS

President Doug Schmier, Secretary/Treasurer Dede Draper, and Vice President Ralph Burton

DIRECTORS PRESENT

Brent Robson, Debbie Smith, Georg Behrens, Ron Dye, Dan Skene, and Jay Hanson attended by videoconference

DIRECTORS ABSENT - None

OTHERS

General Manager (GM) Bryan Case, Executive Assistant Joni Amen, Accounting Manager Linden Barney, Operations Manager Trent Yancey, Engineering Manager Dave Peterson, Staking Engineers Brent Gamett, Wendi Celino and Fall River Enterprise Director David Moore. Also in attendance were Attorney Jerry Rigby, and Member Services Manager Brand Hathaway (by videoconference).

Teton County Commissioners Mark Ricks and Harley Wilcox were invited and planned to attend, but were unable to attend due to a County Commissioners Meeting.

APPROVAL OF AGENDA

Director Robson made a motion to approve the Agenda. Director Smith seconded. A voice vote was taken; THE MOTION CARRIED BY UNANIMOUS VOTE.

EXPENSE VOUCHERS

Secretary Draper made a motion to approve the expense vouchers submitted for payment. Director Smith seconded. Discussion on travel expense vouchers was held. It was noted that if Board members would like to verify a credit card transaction or see their credit card statement they could call the number on the credit card or contact Tina Warnke or Linden Barney for help. A voice vote was taken; THE MOTION CARRIED BY UNANIMOUS VOTE.

APPROVAL OF MINUTES

Following a review of the minutes for September 25th, 2017, Director Robson made a motion to approve the minutes. Director Behrens seconded. A voice vote was taken; THE MOTION CARRIED BY UNANIMOUS VOTE.

Following a review of the Budget Committee Minutes for October 10th, 2017, Director Robson made a motion to approve the minutes. Director Smith seconded. A voice vote was taken; THE MOTION CARRIED BY UNANIMOUS VOTE.

CONSENT AGENDA

Director Burton made a motion to approve the consent agenda. Director Robson seconded the motion, which included Memberships, Purchase of Power Agreements, check reports, safety reports, and discounted patronage capital refunds report. A voice vote was taken; THE MOTION CARRIED BY UNANIMOUS VOTE.

COOPERATIVE BOARD REPORTS

Director Dye reported that he was renewed by the recent conventions he attended. He especially enjoyed visiting folks from other utilities. Director Dye suggested that perhaps Fall River should consider having an even higher equity ratio than we have targeted.

Director Robson reported that he was impressed with the quality of speakers at the NRECA District Meeting. The Cyber Security class was very interesting. He was also moved by a speaker who said that the future comes very quickly and we should create something new out of the ordinary. Succession planning is important with retirements coming in the next 5 years. He commended management for the succession planning that is in place and applauded the Cooperative's efforts in planning for the future.

Director Robson also mentioned going to a Tesla Store in the mall and the discussions he had there. GM Case noted that charging stations should be envisioned as an opportunity and modernization of the grid should include the integration with and use of electric vehicles as potential resources.

Director Draper really enjoyed PNGC and has a much better understanding of the organization. She said that the NRECA meeting piqued her interest in Cyber Security. It was recommended to use Roboform for password management as well as to have security on our cell phones. The suggestion of freezing your credit was also made for preventing identity theft.

Director Hanson reported that they had a CFC meeting in Virginia. He said their strategic planning included succession planning. He said he was very much impressed with Sheldon Peterson's knowledge and expertise. He looks forward to welcoming Sheldon to the Board Meeting in January. Jay thanked everyone for helping with his successful election to the CFC Board.

GM Case felt that Guy Harris' speech was very enlightening. He feels that leadership legacy was very interesting and commented that we will all leave a legacy. Mentoring is important for our future employees to be successful. Cyber Security was also a topic that he thought was interesting. Most of the presentations at the NRECA meeting were a confirmation of the actions Fall River has been taking in regards to cyber security, succession planning, improving Fall River's financial strength, retail rate structuring, changes to the line extension policy, and other changes in preparation for the future.

President Schmier said that he was very impressed with Beth Looney at the PNGC meeting. He feels that the blended rate model was something we should be doing-providing an off/on ramp is negotiated. He said that he enjoyed the MECA meeting as well.

MEMBER COMMENT

Director Smith mentioned that she has heard from a member who has had problems getting calls back on Propane inquiries.

GM Case said he has had a few members call him and personally thank him for not implementing a rate increase next year. He said that the fact that we are not passing through the BPA rate increase to our members was brought up at regional meetings as well.

FINANCIAL AND STATISTICAL REPORTS

SEPTEMBER 30, 2017 FINANCIAL REPORTS – Staff reported net margins through September 30th are \$684,485 better than budgeted margins. The main driver is increased kWh sales year-to-date. We are close to the budget on expenses. Staff explained the credits to our PNGC bill depend on generation. In September, Fall River's hydroelectric plants' generation exceeded forecasted expectations. We have enjoyed a fantastic water year that has been very beneficial to hydro generation operations.

There are quite a few new connect work orders that haven't been closed out yet, so they don't show up on the financial reports. They will be added to the financials as they are closed out.

Cash flows for September include \$2.6M spent on plant and \$3.7M transferred to long-term debt (CFC). Cash balances will be used to pay off long-term debt principle and interest payments which will be due in October.

We are under our budgeted controllable expenses by 3.4% through September. Generation production is logging an all-time record at the Cooperative's hydro facilities. We've also had a good construction year. Fall River's capitalization of labor was discussed.

Capital budget discussion included the variance on the Fox Creek and Last Chance jobs.

The Form 7 report was discussed and Director Smith requested a possible change so all columns included titles. GM Case said he would work with Linden to revamp this report.

2018 OPERATING BUDGET

A summary was presented to the board for final review. **Director Robson made a motion to approve the Operating Budget for 2018. Director Smith seconded the motion.** A voice vote was taken; THE MOTION CARRIED BY UNANIMOUS VOTE.

2018 CAPITAL BUDGET

Director Skene made a motion to approve the Capital Budget for 2018. Director Behrens seconded the motion. It was noted that we added funds for the high-voltage safety demo trailer. A voice vote was taken; THE MOTION CARRIED BY UNANIMOUS VOTE.

ORGANIZATIONAL CHART

Director Skene made a motion to approve the Organizational Chart for 2018. Director Robson seconded the motion. It was noted that the Hydro Operator for Felt was added to the Organizational Chart. A voice vote was taken; THE MOTION CARRIED BY UNANIMOUS VOTE.

PROPANE LONG RANGE BUSINESS PLAN – DAVID MOORE

Propane Board Member David Moore presented the long-range plan. He reported that Propane has increased customers and gallons sold and appears to be on track. He said that the reforecast looks like the return on the investment will be met in 4 years. The EBITDA ratio earnings before interest, taxes, depreciation and amortization was discussed, and GM Case said Propane will track this ratio closely and will report quarterly to the Cooperative's shareholders. This is a measure of the potential market value if the Cooperative sold the Propane business. Marketing efforts are also helping the bottom line.

GM Case reported that we have a distribution system in Jackson and Propane is growing naturally in that area due to our presence. Jackson will be served from the Etna office.

Dan Skene reported the challenges include establishing the new service area and hiring the extra person earlier than anticipated. The additional employee has resulted in expediting the number of new customers and gallons sold in the expansion area. Billing for our services continues to be a challenge. However, Fall River has been the driver on propane prices this year in the Legacy area. Area pricing levels will help us be competitive in Star Valley. Our billing for services may need to be adjusted. President Schmier thanked Director Moore for his presentation.

Director Burton made a motion to approve Propane's Long-Term Reforecast Business Plan for 2018 through 2022. Director Draper seconded the motion. It was noted that Propane will be reporting quarterly. A voice vote was taken; THE MOTION CARRIED BY UNANIMOUS VOTE.

BILATERAL FUND TRANSFER – LOST RIVER

GM Case reported that we received \$30,000 in conservation funds from Lost River Cooperative. The funds were greatly appreciated and will go to help Fall River members install conservation measures.

COOPERATIVE BUSINESS

HYDRO REPORTS

FELT HYDRO-STATUS UPDATE

Dave Peterson reported the trash rake is due for a "controls" update and that staff will prepare a recommendation. The 2018 operating budget included funds for maintenance at Felt. The new plant is working well and there is a brand-new runner for a spare. We have budgeted for relicensing in the future. The Fall River staff will assemble a team to outline the FERC relicensing process. Staff indicated it is time to begin the relicensing process even though the current license doesn't expire until 2023. The old plant will be evaluated to determine the best option going forward.

CHESTER HYDRO-STATOR REPAIRS, TRASH RAKE, RUNNER BLADES

Chester has run well all month and we will break generation totals for the month of October. Staff has received bids for alternate trash rake systems and the cost for a spare rake for the model we currently own. Since Fall River is a partner in the project, the Chester Committee will be convened to provide the information to and make a recommendation for future trash rake operations. There was a problem with a fault in the stator earlier this year. The repairs are estimated at \$300K to rewind the stator. In addition, Riverside was hired to remove the stator

and as Riverside rigged it up to remove it, the rigging and overhead hoist failed, dropping the stator. The cost to repair those damages are approximately \$28K. Discussion ensued on the need for three generators, the cost of the repairs, and insurance coverage. Staff has more work to do and will report to the Board with recommendations.

IP HYDRO-DISCUSSION ON REDUCING DO FERC REQUIREMENTS

Mr. Peterson reported that we had a problem with the gates when the power tripped off recently. Repairs have been made. They are now running well and we anticipate them running all winter.

The dissolved oxygen level went below 7.0 for a few days while staff tried to optimize the blowers. Mr. Peterson is going to work with stakeholders to see if it would be possible to lower the DO requirement to 6 parts instead of 7 during specific times of the year.

FR staff has requested FERC to allow a change in the place flow measurements that are taken to track flow ramping. Hopefully all the agencies and stakeholders will support the proposed change as it will more accurately measure the real change in flows.

GENERAL POLICIES FOR REVIEW AND APPROVAL

Director Burton made a motion to approve GP #204 and GP #508. Director Skene seconded. A voice vote was taken; THE MOTION CARRIED BY UNANIMOUS VOTE.

FALL RIVER MEETINGS PROPOSED CALENDAR FOR 2018

Director Burton asked that the February 14th Policy Committee be stricken from the calendar. Discussion on the scheduling around the holidays was held.

INDUSTRY CALENDAR FOR 2018 was reviewed.

LETTER TO NEW MEMBERS – SIGNATURES Board members agreed that they would like to continue to sign the letters personally.

80TH LOGO CONCEPTS were reviewed. Most of the Board chose logo C, as did the employees.

PNGC ANNUAL MEETING BLENDED RATE MODEL DISCUSSION

GM Case reported that he was glad that Director Draper mentioned that she better understood what PNGC was all about after the meeting. He said that Beth Looney has been doing a wonderful job and he believes that the blended rate model is what is best for the PNGC power pool. Fall River Electric will still have to determine if it makes sense for us. Discussion on the value we receive from being a PNGC Member was held. The new proposed blended rate model offers only a limited on/off ramp with a specified 2028 exit. GM Case said that Fall River should hold firm on requiring an opt-out option with the costs of leaving PNGC being defined in advance within the new agreement. He also stated the only way the blended rate model will work to spread risk is if more utilities sign up, for greater diversity. We can't commit to a contract without costs of power being defined unless we can opt out of the pool if costs don't remain competitive.

Another reason GM Case is in favor of the blended rate model is that we need more utilities to join and this is a way to encourage membership. Discussion on how we could

purchase power without being a PNGC member ensued. The question was asked why some other neighboring Co-ops don't participate in PNGC. The reason is that they aren't growing and they are BPA Tier I purchasers. There are many things to consider in this climate of change.

EXECUTIVE SESSION

Director Robson made a motion to go into Executive Session. Director Skene seconded. A voice vote was taken; THE MOTION CARRIED BY UNANIMOUS VOTE.

Director Skene made a motion to go out of executive session. Director Draper seconded. A voice vote was taken; THE MOTION CARRIED BY UNANIMOUS VOTE.

MANAGEMENT DISCUSSION ITEMS –

2017 WORK PLAN AND GOAL ACCOMPLISHMENTS THROUGH SEPTEMBER 2017 were discussed. The board was pleased with the progress staff had made. It was noted that there are a few goals that aren't going to be met including tagging underground, the monthly employee newsletter, and concerns were expressed we may not reach the goal for answering the phones in the specified number of seconds due to a large outage.

2017 MANAGERS GOALS THROUGH SEPTEMBER 2017, GM Case asked for the Board to let him know if there were questions or concerns with any of the goal accomplishments.

RECAP DEMAND CHARGE - The sample of employees' and Board members' demand use was presented for the month of September. Questions were asked about what the demand/load use means. It was explained how demand billing works. Discussion continued on how we might educate members on this concept.

NO RATE INCREASE, FR TO ABSORB BPA RATE INCREASE - PRESS RELEASE was presented.

POWER THEFT MESSAGE was discussed.

MUTUAL AID AGREEMENT – IDAHO POWER. We have signed the Mutual Aid Agreement. The reason for these agreements is to be able to help others or receive help in the event of disaster for FEMA refunds. PacifiCorp and a few of the smaller Cooperatives and municipalities haven't signed the agreement yet.

BPA TRANSMISSION TRANSFER CUSTOMERS MEETING -DEC 1, 2017 – BOISE GM Case encouraged the Board to attend this meeting. We have a commitment to let our voices be heard and to show that we would like the option to have BPA provide transmission as they have in the past 50 plus years.

WEST YELLOWSTONE'S NEW LEARNING CENTER. A donation in the amount of \$2,500 to help West Yellowstone with a new learning center for the youth was presented. Yellowstone Park will be involved and GM Case said the learning center has broad support in the community and has received significant donations from others. The Board unanimously approved the donation request.

SUMMARY OF SURPLUS EQUIPMENT SALE- The reserves were met on all the vehicles and equipment.

REPORTS

BOARD COMMITTEES None

MANAGEMENT REPORT was included in the packet. The BPA news worth noting was in the report. GM Case reported on his concerns with issues that may cause rate increases, including the water spill surcharge and the financial CRAC. Depending on the increase BPA passes on to Fall River, the Fall River Board will need to look at the impact to FR's financials and assess the need for a retail rate increase to members.


Pictures of the Targhee generator was shown and discussed. Fall River staff still have work to do on the agreement and will also need to have the concrete poured in the spring to set up installation permanently. Until it is installed permanently, the generator won't be set to automatically switch over and the crew will have to go up and manually switch it on. Fall River may need to put a cover over the generator to protect it from potential snow loading. GT staff have agreed to shovel the snow off the generator this year.

POLICY COMMITTEE will be held at 9:00 on November 20th.

ADJOURNMENT

There being no further business, **Director Robson moved that the meeting be adjourned. Director Burton seconded.** BY CONSENSUS, THE MEETING WAS ADJOURNED AT 4:22 p.m.

DATE APPROVED: November 20, 2017


Secretary, Dede Draper