

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

July 23, 2018

The meeting of the Fall River Rural Electric Cooperative, Inc. Board of Directors was held on Monday, July 23, 2018, at the main office of Fall River Rural Electric in Ashton, Idaho. Having determined a quorum was present, President Schmier called the meeting to order at 10:00 a.m. Executive Assistant Joni Amen, recorded the minutes. The invocation was given by Director Jay Hanson. The Pledge of Allegiance was recited.

ATTENDING OFFICERS

President Doug Schmier, Vice President Brent Robson, and Secretary/Treasurer Dede Draper

DIRECTORS PRESENT

Husk Crowther, Georg Behrens, Ron Dye, Jay Hanson and Debbie Smith

DIRECTORS ABSENT

None

OTHERS

CEO/General Manager (GM) Bryan Case, Executive Assistant Joni Amen, Manager of Member Services Brand Hathaway, CFO Linden Barney, Legal Counsel Jerry Rigby, Fall River Enterprises Board VP Merrick Young, Steve Anderson, and Gary Saleba of EES.

BOARD OFFICER ELECTIONS, JERRY RIGBY

The floor was turned over to Mr. Rigby and he asked Director Hanson about those board members who contacted him regarding their interest in running for a Fall River Board Officer position. Director Hanson then nominated Doug Schmier for President, Director Smith nominated Dede Draper for President. No other nominations being made, Mr. Rigby declared nominations closed. The board cast their votes by paper ballot and Jerry Rigby tallied the vote. Doug Schmier was elected Board President.

Director Hanson nominated Brent Robson for Vice President and Director Smith nominated Dede Draper. No other nominations being made, Mr. Rigby declared nominations closed. The board cast their votes by paper ballot. Brent Robson was elected Vice President.

Director Smith nominated Dede Draper for secretary, Director Draper nominated Debbie Smith, and President Schmier nominated Jay Hanson. No other nominations being made, Mr. Rigby declared nominations closed. The board cast their votes by paper ballot. Dede Draper was elected Secretary/Treasurer.

APPROVAL OF AGENDA

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

EXPENSE VOUCHERS

Director Draper made a motion to accept and approve expense vouchers. Director Hanson seconded the motion. A voice vote was taken; THE MOTION CARRIED BY UNANIMOUS VOTE.

APPROVAL OF MINUTES

Director Hanson made a motion to approve the Minutes of June 16, 2018, with corrections. Director Robson seconded. A voice vote was taken; THE MOTION CARRIED BY UNANIMOUS VOTE.

Director Hanson made a motion to approve the Minutes of May 30, 2018. Director Robson seconded. A voice vote was taken; THE MOTION CARRIED BY UNANIMOUS VOTE.

CONSENT AGENDA

Director Robson made a motion to approve the Consent Agenda. Director Hanson seconded the motion which included Memberships, Purchase of Power Agreements, check reports, safety reports, and the discounted Patronage Capital refunds report. A voice vote was taken; THE MOTION CARRIED BY UNANIMOUS VOTE.

Bryan Case reported the recently approved by-law change was in effect immediately following the Annual Meeting and the Cooperative has received a request from a member who has permanently left Fall River's service territory. With the discounted rate, the Patronage Capital retired will be over \$60k. The request will be included in next month's Board Packet.

BOARD REPORTS

President Schmier asked for any reports or comments. Director Robson said he thought the Annual Meeting went very well. He would have liked to see the picture boards personalized by labeling them with names.

Director Behrens recently attended NRECA Directors Summer School in Coeur 'd Alene. He said it was a very good session. He learned a lot and he highly recommended that new Director Husk Crowther take advantage of the training they offer.

Director Draper reported on a conversation with an Ashton resident who had concerns about our solar for school program. She made the clarification that the schools will use the kWhs to help offset their electric bills. CEO Case reported that it is estimated that the schools will reduce energy costs by over \$10,000 as an offset for power production. The schools to date have not had to contribute any money to the projects.

Director Draper also reported that they had a conference call for the ICUA Board meeting last month. Some items of interest were: Bear Prairie has been appointed as the new General Manager for Idaho Falls Power as Jackie Flowers took a General Manager job for Tacoma Power. Lower Valley Energy is building the Hooper Springs transmission line and will lease it back to BPA. The ICUA Annual Meeting will be held later this week in Boise. This will be CEO Case's last meeting as Board President for ICUA.

Director Dye reported on the new hotel in Island Park and on how big it is. Director Crowther added that the city of Island Park is working on planning and zoning issues regarding the project. They need some issues cleared up on fire lanes and commercial

zoning setbacks. They are also working with ITD to be sure that access will accommodate the traffic. Director Dye said the new phone towers are being built on the mountain at Valley View which should improve cell service.

Director Hanson reported that he was very pleased with the Fall River Annual Meeting. He does wish there was more time to visit with members. He also attended the CFC Forum and said how outstanding this meeting was. He said that some of President Ford, President Reagan and President Bush's children were there and talked about growing up in the White House. There was a chance for a photo op. Clint Hill, who had protected Mrs. Kennedy when President Kennedy was shot, was waiting in line to have his picture taken with Director Hanson. He said he was so impressed with his humility and reiterated what a fabulous meeting it was.

President Schmier reported that Jackie Flowers was elected President of NWPPA, but since she resigned she won't be able to serve. They moved the Vice President to the President position. President Schmier also attended a MECA meeting.

Attorney Rigby reported that he had the opportunity to attend the PNWER meetings where he met with the Julie Smal, the lead US entity negotiator for the Columbia River Treaty. Present was also the lead negotiator for Canada. A round table discussion was held where all parties claiming rights to be heard and or compensated attended. It seems as though there are many who want the United States (and potentially the Snake River) to share in the "compensation" including the lowering of our reservoirs.

MEMBER COMMENTS are included in the Board Packet.

FINANCIAL & STATISTICAL REPORTS

CFO Linden Barney reported on the financials. Net margins are over \$1 million ahead of budget year-to-date. The biggest contributors to the variance are:

1. \$225k more net margins from Felt than anticipated (still in 1st full year of having it back)
2. \$174k more revenue from retail sales of energy (higher kwh sales than budgeted)
3. \$79k less charges for resource support services at the Island Park and Chester hydros due to good water year
4. \$148k less than budget spent year-to-date on labor and overhead
5. \$157k less spent year-to-date than budgeted for interest expense due to no borrowings on credit line, lower variable rates and no borrowing to offset Electric's loans to Propane
6. \$96k received in hydro incentive funds from section 242 application to the Dept. of Energy for Chester generation in 2016

The year-over-year growth in new services (June to June) of 2.5% where, in much of the industry, kWh growth rates are flat.

Fall River Electric Cash Flow year to date:

1. \$4.1 million generated from operations
2. \$1.5 million invested in plant
3. \$1.7 million of principal payments on long-term debt

Controllable expense lines are 5.8% under budget year-to-date. Some of the variance is due to timing differences on when expense items were budgeted vs. when they are incurred. However, we expect to be under budget on controllable expenses for the year.

Capital Budget – we have spent \$1.5 million year-to-date which is 39% of the 2018 capital budget. There are large expenses coming in later this year for work plan projects to be contracted out. CEO Case said that the fiber job is going to be over budget by about \$70k. He will keep the board informed.

Mr. Barney presented a 30-year, long-term loan from Fall River Electric to Fall River Enterprises which is in line with the 2018 Propane budget expectations in the amount of \$280k with an interest rate of 4.95%.

Director Hanson made a motion to approve the promissory note for Fall River Enterprises. Director Robson seconded the motion. Following discussion, a voice vote was taken; THE MOTION CARRIED BY UNANIMOUS VOTE.

CEO Case explained that we have a few higher interest loans which will be repricing in the next few years. Staff was considering paying those off early due to having significant cash reserves. However, there are significant early payoff fees for the loans. Staff considered several options on a net present value basis and investing the monies in CFC commercial paper proved the best option. We will consider paying off the loans as they reprice, setting a new interest rate and rate period, and at that point in time Fall River could pay them off early without penalties. It was noted that our equity ratio has hit 40%.

COOPERATIVE BUSINESS

ANNUAL MEETING REVIEW

CEO Case presented an Executive Summary Report about the 2018 Annual Meeting. He noted that we did have to go to plan “B” with the rain, but it worked out well. In planning to make things better in the future, staff has decided to make a video of the High Voltage Safety Demonstration so that it is available to present to members, even if it rains.

CEO Case asked for ideas to improve the Annual Meeting. Director Crowther said he thought it was a very good meeting. Director Draper commented that the vendors liked having the setup in the same location as where members eat breakfast. She added that she has concerns on how expensive it is and what it costs each member, especially when very few show up. She said she would like to have something that would draw more folks to the meeting such as a motivational speaker. Director Behrens suggested having the industry talks printed instead of given.

Jerry Rigby advised that having an Annual Meeting where members are engaged is very beneficial. Providing reports to members, in a transparent fashion, and allowing members to ask questions, all work to prevent problems. Members get a chance to get to know the board and Staff.

Director Hanson said he really enjoys the Annual Meeting. Director Robson agreed and commented that he feels a responsibility, as a board member, to visit with members and be able to interact with them. He likes the format but would like to have more time to visit with folks.

The historical voting report, SBS Final Certified Report, Annual Meeting Minutes (to be approved by Members in 2019), and Member comments and questions, were provided to the board in the packet.

PROPOSED DATE AND PLACE FOR 2019 ANNUAL MEETING

Director Hanson made a motion to hold the 2019 Annual Meeting on June 15, 2019 in North Fremont High School in Ashton and to allow for more time for directors to visit with members. Director Robson seconded. Following discussion, a voice vote was taken; THE MOTION CARRIED BY UNANIMOUS VOTE.

The By-law change (payout option for members who permanently leave the service area) was effective as of June 16, 2018 – President Schmier and Secretary Draper signed the updated by-laws.

MEMBER AD HOC COMPENSATION COMMITTEE

The Ad Hoc Committee scope of duties were discussed. They will cover the NRECA Survey Results and a Board Compensation PowerPoint. CEO Case explained the process for forming a Compensation Committee and explained the information in the Board Packet. Director Draper asked to make sure that the Compensation Committee members be made aware of how difficult it is, if not compensated for the work involved, especially if the board member is not retired. The board discussed the balancing act of not over or under compensating for the time invested. The board also reiterated that they have no expectations from the committee and feel as though they are adequately compensated.

CEO Case asked if the committee scope was appropriate. The board encouraged him to proceed with the plan. The date of the meeting is July 31st. President Schmier and CEO Case will be in the office at the time of the meeting and General Counsel Rigby will be available by phone if needed.

STRATEGIC PLANNING PRIMER

CEO Case introduced Gary Saleba and Steve Anderson of EES. He said his intent for inviting Mr. Saleba and Mr. Anderson was to get ideas flowing for the Board Strategic Planning Meeting. We have a lot of important, long-term decisions to make regarding purchasing power in the future and establishing a rate structure to position the Cooperative for the emerging trends of the future.

Mr. Saleba discussed the big picture regarding rates in the western US. They see a change coming in coordinating power purchases and large load balancing authority. Currently, there are several balancing authorities throughout the Northwest; EES is predicting they will all move to consolidate the coordination of power generation and transmission into one large entity. Energy efficiency and growth are off-setting each other and, therefore, kWh sales will level out over next several years. He discussed the differences in the generational expectations with the younger consumers looking to have better, more timely information, and they want greater control over their power usage. ESS said they felt good about the predictions they were making, but struggle with the timing of when it will all be adopted and demanded by consumers. They are guessing that the changes are coming relatively quickly, within the next 5 years. Wholesale prices are looking to be \$25 to \$30 per Mill range and spot prices seem to be stable. Mr. Saleba feels that BPA will be higher than market in 2028 which will be an issue to be considered. BPA will do well with balancing load and they own 75% of the transmission facilities in the Northwest.

Retail choice for purchasing green power is becoming a trend. Mr. Saleba reminded the board what California went through in the 90s with Enron. Texas already has retail choice

and Nevada and Wyoming legislatures are working on the option. Privatization of transmission facilities was discussed. Mr. Saleba said prices would go up if it happened. He thinks members will want choice in the future and recommends getting Fall River's fixed costs from other sources besides kWh sales. Mr. Saleba praised Fall River as an early adopter of the higher monthly fixed fee (the Line and System Maintenance fee). He also recommended adding a demand charge on members' bills. The board discussed the benefits of a ratchet rate on demand and the value of pricing fixed costs in a monthly charge for services. The board discussed cyber currency requests for service and Mr. Saleba agreed with Fall River's approach of asking for initial costs upfront for services to mitigate the risks of them leaving after a short time. He reiterated getting our lines charges to cover costs and not depend on revenue from kWh sales. Marketing will be a different animal in the future. He suggested being the first one to offer solar and be the backup for distributive generation. That would be a great package. He feels that doing it ourselves is the way to go. One thing is certain, things are changing.

CEO Case tasked Steve Anderson with exploring various options to acquire power and transmission services in the future. The options EES was asked to explore included UAMPS, NRU, market purchases, combining services with Idaho Falls Power, BPA, PNGC, and a Fall River option where we manage our own power and transmission purchases. Steve Anderson delivered the presentation to the board. EES provided details on Fall River load forecasts, power markets, and transmission options. There was discussion on BPA rates and their upward trajectory while the wholesale power markets are trending lower. The length of time in contracts was discussed. In the wholesale power markets, a three-year contract is standard with the ability to secure longer agreements up to seven years with wholesale power marketers.

Slice offers something to consider. CEO Case said that Idaho Falls is involved with this option and appears to be a good option, at this point in time, with higher than average water flows. Partnerships were discussed which would allow for economies of scale. Mr. Anderson said there is a need for representation on BPA rate cases and that PNGC, NRU, and PPC provide that. Carbon legislation is a major contributor to rate uncertainty and Oregon and Washington continue to try to pass legislation to institute some type of carbon tax.

2019 CALENDAR was reviewed. We will add the Association dates as they come in. There were no objections with the board meeting dates as presented in the calendar.

PROPANE QUARTERLY UPDATE

Merrick Young was welcomed to the floor to give an update report on Propane. The new software program is helping with tracking services and billing. Billing for services is up substantially at an almost 40% increase so far this year. JT Hill has been involved with participating in the Wyoming local Fourth of July celebrations, 4H, county fairs, and being visible to the public.

Other good news is YTD net income is \$15,195, which is \$135k better than budget expectations. Gallons sold is down by 10k gallons year to date, but really close to forecasts. The gross margin is over budget, so Propane is doing extremely well. Mr. Young explained that the summer fill will reduce the gross margin, but hopefully it will be made up by volume.

A question was asked about keep-full customers. Staff does make sure to give the special price to keep-full customers. We are sure to take care of them; they are our best customers.

We are increasing the number of customers and will focus on marketing in the Star Valley area. Mr. Young said that the 5-year plan with the Fall River Electric Board is ongoing and Enterprises is really striving to meet those goals.

CEO Case explained the Enterprise business to new Director Crowther. He shared our plans and goals. The difference with the Star Valley model versus the Legacy areas were discussed. Mr. Barney stated that we normally lose money during this time of the year and we are doing very well in comparison to other years and are over budget on margins year-to-date.

POLICY REVIEW

Director Hanson made a motion to approve the updates with corrections to GP #502 Member Data Privacy, as recommended by the Policy Committee. Director Robson seconded. A voice vote was taken; THE MOTION CARRIED BY UNANIMOUS VOTE.

ANNUAL REVIEW OF POLICIES:

Attorney Rigby and the board conducted an annual review of the following policies: General Policy #102 Director Duties, Responsibilities, Standards of Conduct & Professional Development, General Policy #309 Allocation & Retirement Patronage Capital, General Policy #314 Retirement of Decedents Capital Credit, General Policy #420 Purchase & Wheeling of Power and Energy from Small Power Producers and Co-Generators, General Policy #502 Member Data Privacy, General Policy #625 Prohibition on Discrimination Harassment and Retaliation, and General Policy #603 Equal Emp Affirmative Action Plan.

Director Draper asked about General Policy #309 and Allocation & Retirement Patronage Capital, General Policy #314 Retirement of Decedents Capital Credit, and the need to update them regarding the change to the By-Laws. It was also determined that we need to define a new, large, single-load policy. Mr. Rigby addressed the Red Flag rules in the Member Data Privacy Policy #502. CEO Case discussed General Policy #625 Prohibition on Discrimination Harassment and Retaliation. The board has a responsibility to report any incident they may know about. CEO Case then reported that he has a draft plan of the Affirmative Action Plan.

BOARD POSITION FOR NORTH ISLAND PARK – DISTRICT 8

The open position for District 8, North Island Park, was discussed. Chairman Schmier read By-laws Article IV “Directors” Section 7. The list of the Nominating Committee members was discussed as well as a list of possible candidates.

CEO Case asked how the board would like to proceed on selecting a new director. The board asked to have the Nominating Committee meet the first week of August and then conduct a special board meeting to choose the new director.

PICTURES OF NEW BOARD MEMBERS. There is a photographer scheduled to come to the September board meeting to take group shots with the new directors.

PRC – BOARD DELEGATE, VOTING DELEGATE AND ALTERNATE VOTING DELEGATE

Following discussion, Director Draper made a motion for CEO Case to be the voting delegate for PRC and President Schmier to be an alternate. Director Behrens seconded. A voice vote was taken; THE MOTION CARRIED BY UNANIMOUS VOTE.

NRECA VOTING DELEGATE CREDENTIAL – (Current Brent Robson & Georg Behrens) **Director Robson made a motion for Director Draper to be NRECA Voting Delegate and Director Behrens to be alternate. The motion was seconded by Director Dye.** A voice vote was taken; THE MOTION CARRIED BY UNANIMOUS VOTE.

ANNUAL REPUBLICAN BBQ at Tautphaus Park, August 25th beginning at 6:00 p.m. Directors Robson, Crowther, and Schmier stated they would attend along with CEO Case and their spouses.

EXECUTIVE SESSION

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

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

MANAGEMENT DISCUSSION ITEMS

MEETING WITH DEPARTMENT OF INTERIOR SECRETARY, RYAN ZINKE
CEO Case reported on what a pleasure it was to meet Secretary Zinke and staff. He said he was invited to Secretary Zinke's office after the main meeting, where they discussed some of Fall River's issues, including support for reforms to federal land management practices and to modernize the Endangered Species Act regulations to encourage efforts in protecting the value of the Federal Columbia River Hydro Power System. There is a need for changes that would allow timely access to power lines and rights-of-way on public lands for repairs, maintenance, vegetation management, and reduction in emergency response time by reducing permit and environmental review timelines for electric infrastructure projects and streamlining reviews for smaller hydro projects.

Secretary Zinke discussed a reorganization plan intended to increase efficiencies, reduce the number of departments, and reduce the number of regions from twenty plus down to eleven, set the expectation that the DOI acts as partners with those using resources, consolidate and move offices where it makes sense, and push decision making down to the people in the field.

YEAR TO DATE REVIEW OF 2018 WORK PLANS AND GOALS

CEO Case asked if there were any questions about the goals or work plans' progress to-date. President Schmier said he would like to see the delinquent Accounts Receivable reduced more. CEO Case explained that Fall River Electric purchases Fall River Enterprise's Accounts Receivable and it is extremely difficult to collect on those at times. The propane has been used and is gone, in most cases. This, in turn, extends the amount of time it takes to collect on delinquent propane accounts. CEO Case noted that in recent

history, the delinquent account balances at Fall River were in excess of \$1M and staff has worked diligently to get them down to around \$300,000.

SMART GRID INVESTMENT – AMI, FIBER, ETC.

CEO Case reported on all the positive effects of the investment made into AMI Meters and the massive savings, \$1.5M, because of them. We used to have to send out a conservation specialist to do a study on usage for members' high bill complaints. Now we have access to usage data and can give specific times of high use and give members the information they need at their fingertips and it usually identifies the reason for high power usage. Cabin owners and farmers can check to see if they are using in remote areas to be sure they don't have a problem with their power. CEO Case explained other advantages to having the AMI meters.

President Schmier recently had Jan Dean come in and do a conservation project at his business and was amazed at the amount of energy savings they have witnessed since the remodel.

ICUA – YOUTH RALLY JULY 9TH – 13TH

Fall River sent four area youth to the rally. All attendees earn a \$500 scholarship, just for going. CEO Case was impressed with the Fall River youth.

SOLAR FOR SCHOOLS UPDATE

Funding is sufficient for each of the schools' projects. The requests for proposals have been sent out by the schools. Staff heard back from Creative Energies that they were too busy and didn't do wind turbines anymore and, therefore, would not be submitting a proposal. Other proposals are starting to come in.

HYDRO FACILITIES UPDATE – REFERENCE MANAGEMENT REPORT

Mr. Dave Peterson reported that the Dissolved Oxygen (DO) levels dropped below 7.0 last week at Island Park Hydro. In order to inspect and make repairs when they went off, they dewatered the downstream side of the tailrace. He showed pictures and explained the process. Any air leaks cause problems with the bubblers and he showed pictures of a couple of leaks. They had concrete poured to fix one leak and were able to cap the others. It helped quite a bit. It is running now at 60% so not perfectly, but better.

Buffalo is operating well, and generation is steady.

Felt Operating Statement was attached. Mr. Peterson reported that the plant is running well and crews will be installing fiber to the plant soon, so the data may be transferred remotely. There is fiber to the substation now and it just needs to be installed into the canyon. He explained the advantages of getting this project finished. Work on relicensing will need to be started this year.

Chester Hydro was discussed. The stator is almost ready and will be shipped soon. Unit #1 has a lot of sand and gravel in front of it that has to be dredged to remove it. Mr. Peterson does the diving and the work himself. CEO Case has assisted at times. It will be nice to have the Unit #1 turbine running so that the gravel won't build up. The cost for repairs of the stator will go to the insurance company after it is back and in service.

4H-FFA LIVE STOCK AUCTION – CEO Case gave a report and said that Fall River Enterprises will participate in the purchase of livestock for Electric and Propane.

IS THERE SUPPORT IF BRYAN CASE WAS TO RUN FOR OFFICER ON NRECA BOARD? TIME COMMITMENT, COSTS WOULD BE COVERED BY NRECA. CEO Case asked what the board's thoughts were if he were to run for an officer position. He has finished his term as the ICUA President this month. He has had a couple of NRECA Board members and officers approached him with encouragement to run for an officer position on NRECA Board. He is undecided and requested direction from the board. The board concurred that he had their full support if he chooses to run.

REPORTS

BOARD COMMITTEES, MEETINGS, & MEMBER COMMENTS

Executive Committee Chairman, Doug Schmier – no report.

Administrative Committee Director Draper asked the question of how we reappoint members to the committees. She also wondered about having the Ad Hoc Policy Committee made permanent. President Schmier recommended discussing it at the next Policy Committee meeting.

General Council Jerry Rigby reported that his last year as Chairman on the Western States Water Council. His participation has been beneficial and helped his clients.

Director Crowther was impressed with how engaged this board is and is happy to be a part of it. CEO Case reiterated how much he appreciates our good Board of Directors.

The upcoming Calendar was discussed.

Fall River's Management Report was included in the Board Packet.

ADJOURNMENT

There being no further business, **Director Behrens moved that the meeting be adjourned. Director Robson seconded.** BY CONSENSUS, THE MEETING WAS ADJOURNED AT 4:00 p.m.

DATE APPROVED: August 21, 2018


Secretary, Dede Draper