

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

July 25, 2016

The meeting of the Fall River Rural Electric Cooperative, Inc. Board of Directors was held on Monday, July 25, 2016, at the main office of Fall River Rural Electric in Ashton, Idaho. Determining a quorum was present, President Doug Schmier called the meeting to order at 10:00 a.m. Executive Assistant Cathy Meeks recorded the minutes. The invocation was given by Jay Hanson.

ATTENDING
OFFICERS

President Doug Schmier, Vice-President Debbie Smith, Secretary/Treasurer Dede Draper, and Immediate Past President Jay Hanson

DIRECTORS
PRESENT

Boyd Bowles, Brent Robson, Dan Skene, and Ralph Burton

DIRECTORS
ABSENT

Ron Dye

OTHERS

General Manager (GM) Bryan Case, Executive Assistant Cathy Meeks, Member Services Manager Brand Hathaway, and CFO Linden Barney

Also attending, Hyrum Erickson, Attorney.

APPROVAL OF
AGENDA

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

EXPENSE
VOUCHERS

Dede Draper made a motion to approve the expense vouchers submitted for payment. Debbie Smith seconded. A voice vote was taken; THE MOTION CARRIED BY UNANIMOUS VOTE.

APPROVAL OF MINUTES

MINUTES OF JUNE 20, 2016 BOARD MEETING

Following a review of the minutes for June 20, 2016, Jay Hanson made a motion to approve the minutes as submitted. Ralph Burton seconded. A voice vote was taken; THE MOTION CARRIED BY UNANIMOUS VOTE.

CONSENT AGENDA

After review, Jay Hanson made a motion to approve the consent agenda. Brent Robson seconded the motion, which included the memberships, purchase of power agreements, check report, vouchers, safety report, and capital credit report.

Following discussion and hearing no objections; THE MOTION CARRIED BY UNANIMOUS CONSENT.

MEMBER COMMENT

The board discussed the letter included in the board packet from member Lee King in regards to the recent events at the Island Park Hydro. Fall River Electric responded and Mr. King expressed his appreciation. Management expressed disappointment in the direction Henrys Fork Foundation is taking and will take measures to ensure FRREC's story is told, along with FRREC's commitment and investments to improve the fisheries in the area. GM Case expanded on further measures that will be taken and the direction that FRREC will be going. Additional comments included the value of the dams, the hydro facilities, and the contributions Fall River's members make to the fisheries.

Report on the SE Idaho Outage on Tuesday, July 19, 2016 was provided by GM Case. The latest report is that the Goshen substation operated by PacifiCorp experienced a failure in a capacitor bank when two crows came in contact with energized facilities. Many positive comments were received from members on how FRREC handled the situation and how members were communicated with. The communication plan was followed and FRREC used our Facebook page, local radio stations, and local news stations. FRREC's phone system was disabled for approximately 30 minutes during the outage because the generator experienced an error, which had to manually be cleared. By the time the generator was operational, the uninterruptable power system (UPS), which temporarily keeps servers powered ran out of battery backup capability. A UPS will be installed that provides longer backup period to the critical servers in the computer room. Staff was able to stay in contact with news reporters and post on Facebook, which provided members with up-to-date information and the Facebook page received a lot of hits and was shared over 34 times. GM Case gave some further explanation as to the cause of the outage, and the process of getting the electricity back on. This is the second major outage in the last 18 months due to failure at the Goshen substation. Pressure will be applied through FERC and other organizations, to remedy the situation and prevent outages in the future. A letter is being drafted in support of Hooper Springs. Discussion continued on what options there are and what message FRREC needs to send.

FINANCIAL AND STATISTICAL REPORTS

June 30, 2016 FINANCIAL REPORTS –

Staff reviewed the financial report. This month's margins were better than budget due to more labor and overhead being capitalized than anticipated in the budget. The equity ratio has improved to just over 36 percent. Debt has been reduced this year by over \$1 million from principal payments. FRREC budgeted borrowing additional LTD this year, but to date, has not. FRREC may need to look at borrowing LTD as budgeted due to the amounts loaned to Fall River Enterprises (FRE) for their expansion. Staff will make a recommendation if additional debt is needed. GM Case explained that FRREC has been expensing testing and litigation costs relating to Chester generation concerns and potential lost revenue. These costs could be deferred and matched against the future useful life of the plant. **Jay Hanson made a motion to move litigation expenses related to Chester hydro to a deferred account.** Boyd Bowles seconded. A voice vote was taken; THE MOTION CARRIED BY UNANIMOUS VOTE.

Cost of Service Analysis (COSA) –

Following a review of the Cost of Service Analysis, GM Case recommended staff leave FRREC retail rates as they currently are. It was noted that small commercial and large commercial accounts are being under-collected. BPA will be going through rate increases, which should be implemented in October 2017. If those increases in wholesale power and transmission costs result in a need to increase FRREC's retail rates, the rate increase typically would become effective with the January 1, 2018, rates.

PROPANE LINE OF CREDIT & LONG-TERM DEBT –

GM Case summarized the request from Fall River Enterprises for LTD and an increase in the line of credit FRREC extends to FRE in order to cover the capital investment and expenses of the expansion which were previously approved and budgeted. FRE is requesting a loan in the amount of \$265,000, which will be considered long-term debt maturing in July 2046. **Boyd Bowles made a motion to extend a loan to FRE in the amount of \$265,000, with the amortization as set forth until July of 2046.** Jay Hanson seconded. A voice vote was taken; THE MOTION CARRIED BY UNANIMOUS VOTE.

Staff is also recommending increasing the line of credit. **Boyd Bowles made a motion to increase the line of credit to \$400,000.** Jay Hanson seconded. A voice vote was taken; THE MOTION CARRIED BY UNANIMOUS VOTE.

COOPERATIVE BUSINESS

FRREC/LVE CONSOLIDATION E3 STUDY -

E3 staff presented the most recent consolidation study done for FRREC and LVE. Included in the presentation was a Consolidation Overview; Consolidation Savings and Re-Allocations of Administration, and O&M costs. The study showed the savings that would result from a consolidation, as well as where the savings would come from (an

average of \$2.3 million a year). E3 estimated there would be \$31 M savings over a 13-year period. Annual ongoing savings would be about 10 percent.

Clarification was given as the discussion continued. Power costs savings were not showing a large savings (\$200,000 for FRREC with PNGC – and \$100,000 for LVE with NRU). The savings and reduction of costs were allocated to the individual rate classes based on standard COSA allocation standards. Based on the distinct differences between FRREC and LVE, retail rates will be different and will be aligned with regional/geographical zones. It was reiterated that it was unlikely that rate parity would ever be reached. E3 staff continued with the PowerPoint presentation, showing the benefits of consolidation savings and cost re-allocation. The information presented included the projected impact on average bills for residential, commercial, and irrigation users. The savings was broken down per month and included a 13-year forecast. For the average FRREC residential member, E3 estimated a savings of \$84 per year. E3 staff provided clarification following discussion of the information. Some adjustments will be made for clarification and a new PowerPoint will be distributed. Following the presentation, the Board continued the discussion.

Brent Robson moved to discontinue the discussions of possible consolidation for the following reasons and called for a roll call vote.

- 1. Creating too much unrest for employees.**
- 2. A few dollars per month savings for residential is not worth the loss of the Fall River Co-op forever. The price of a trip to McDonalds once or twice a month is not worth our name and rich tradition.**
- 3. A 99 cent per month saving for irrigators is not worth the loss of the Fall River Co-op forever.**
- 4. The reduction of board members to three in a consolidated board of nine is not in the best interests of Fall River membership.**
- 5. Fall River is very capable of meeting changing demands of the industry just as it had done in the past.**
- 6. In our first discussion we listed things that would be deal breakers: employee support, sufficient cost savings, getting out of PNGC, and unanimous board support. These have not been met and we need not pursue this any further.**

Boyd Bowles seconded.

Discussion continued with clarification given. Comments continued with concern about board representation, or the lack thereof. The E3 study suggested savings similar to the EES study and confirmed average estimated savings per meter. The discussion continued and included: members having the opportunity to vote, how to get members out to vote, and how the consolidation discussion was initiated. The need to take the vote to the members was expressed.

President Schmier summarized the comments and called for a roll call vote:

Brent Robson:	Yes
Dan Skene:	No
Ralph Burton:	No
Jay Hanson:	No
Debbie Smith:	Yes
Dede Draper:	No
Boyd Bowles:	Yes
Ron Dye:	Absent

With a three to four vote, the motion failed.

CONSOLIDATION TALKING POINTS –

GM Case reviewed the consolidation talking points which includes the opportunities and threats. Concerns were expressed and discussed, and GM Case asked the board to review the talking points and make corrections and suggestions by the next board meeting. The MOU will be discussed at the combined meeting on Sept 7, 2016. GM Case and GM Webb have had discussions with Ted Case (no relation to GM Case) who will facilitate the joint meeting with LVE. The MOU and talking points will be provided to the facilitator. Ted Case will conduct an interview, prior to the joint meeting, with each of the board members from both boards, getting concerns and input and bring those to the meeting. The purpose of the joint meeting has two objectives. First, determine if both boards feel there is enough benefit to all members to move forward with consolidation discussions. If it is determined there is not enough benefit our discussion is done. If the joint boards think there is enough benefit then they will work out a MOU acceptable to both boards. If an acceptable MOU cannot be achieved then the consolidation discussion will cease. Hyrum gave clarification on Idaho Code Section 30:30:106 in regards to the voting requirement stated in the by-laws. Discussion continued on the joint meeting, with the desire expressed to have LVE Board to have their comments on the current MOU back to FRREC prior to the meeting for review. If the boards can agree to an MOU then the decision will be taken to the members for a vote. Fall River members have the final say.

FALL RIVER ENTERPRISES – PROPANE

UPDATE ON EXPANSION –

In addition to the long-term debt and line of credit discussion that took place earlier in the meeting, GM Case gave a brief update on Fall River Enterprises, which included the announcement of a new employee, Darren Haderlie, and also a new board member representing the Island Park area, David Moore.

OPEN HOUSE – SUMMER FILL –

President Schmier reminded the board of the open house for FRE's new office in Etna will be on August 17, 2016, encouraging all who could to attend to participate. The summer fill event, was also announced with propane priced at \$1.04 per gallon for 200+ gallons.

BOARD PRESIDENT COMPENSATION –
Deferred until next month's meeting.

PNGC ANNUAL MEETING –

GM Case reported the PNGC strategic planning session went well. PNGC will be implementing the changes FRREC had been advocating for rate changes of Tier 2 rates at the beginning of this fiscal year, starting October 1, 2016. Following further discussion, **Ralph Burton moved the Board direct legal counsel to investigate the merits of recovering costs from PNGC for overpayment in previous years, Boyd Bowles seconded.** A voice vote was taken; THE MOTION CARRIED BY UNANIMOUS VOTE. PNGC Annual Meeting will be held on October 3-4, 2016.

BONNEVILLE POWER ADMINISTRATION –

GM Case included in the board packet a list of BPA updates. Further discussion and explanation of conservation took place. Also discussed was the targeted rate increase of 4-9 percent on BPA's wholesale power costs and a 3-5 percent increase on wholesale transmission rates, which are unsustainable. Board members were encouraged to submit comments to BPA on the IPR and CIR process through August 12, 2016.

ICUA ANNUAL MEETING RECAP –

Board members who attended reported on the ICUA meeting. Discussion continued of the benefits and downfalls of having it combined with the BPA Annual Customer Meeting.

NRECA VOTING DELEGATE –

Boyd Bowles made a motion to leave the voting delegates for NRECA as they currently are with GM Bryan Case as the Voting Delegate and Jay Hanson as the Alternate Delegate. Brent Robson seconded. A voice vote was taken; THE MOTION CARRIED BY UNANIMOUS VOTE.

ISLAND PARK HYDRO – D.O. GRAPH –

The dissolved oxygen report (included in the board packet) showed the plant operating within FERC limits. GM Case reviewed the report, explaining that over the next few years of tracking, staff will be able to determine and schedule when the blowers are needed.

FIBER OPTICS UTILIZATION OPPORTUNITIES –

GM Case gave a summary of the discussion on using the FRREC dark fiber. Staff asked the board if it was worth their time to bring back some numbers on the cost to expand fiber from Ashton to Rexburg and north of Island Park to Ennis at the next board meeting. The consensus was that the board was interested in the information.

COUNTY FAIRS –

Fall River Propane will be attending the Teton County Fair and the Lincoln County Fair in Star Valley. FRREC Staff will take care of Fremont County Fair.

DISTRIBUTIVE GENERATION – CREATIVE ENERGIES –

Bruce Smithhammer, Sales Manager, and Scott Kane, Co-founder and Owner of Creative Energies attended the board meeting to present an overview of what services Creative Energies provides and to give an update on the latest changes in the solar industry. Mr. Smithhammer presented a comparison of the proposal Creative Energies had done in 2012, to a more current one for 2016, which showed the efficiencies and advances made in the solar industry. Mr. Kane presented the latest solar trends over the last five years in our region. Residential roof top solar has significantly increased in the last two years. The different incentives offered were discussed. Mr. Kane continued with the presentation, showing different options and the amount of generation for commercial and residential and advances in individual models with east/west panel efficiency. Also included in the presentation were community shared solar gardens, solarized programs, utility-owned subscription solar programs, and utility-owned distributed generation on rooftops. Questions were asked and given clarification. Discussion included new metering options.

SOLAR FLYERS –

GM Case presented the flyers included in the board packet. An interconnection policy and wheeling policy will need to be addressed in the near future.

EXECUTIVE SESSION

Dan Skene made a motion to go into Executive Session. Jay Hanson seconded.

A voice vote was taken; THE MOTION CARRIED BY UNANIMOUS VOTE.

Dan Skene made a motion to go out of executive session. Jay Hanson seconded.

A voice vote was taken; THE MOTION CARRIED BY UNANIMOUS VOTE.

FOR INFORMATION PURPOSES –

NW GOVERNORS LETTER TO OBAMA – COLUMBIA RIVER TREATY –

Included in the board packet was a copy of the letter sent to President Barack Obama from the Governor of Idaho, along with the governors of the surrounding states, in support of modernizing the Columbia River Treaty.

CHESTER HYDRO INCENTIVE FOR 2015 GENERATION –

Staff have received notice that the application for 2015 has been approved; calculations of final payment will be sent by the end of July, which will include the process to secure payment.

ICUA YOUTH RALLY RECAP –

GM Case reported there was good participation with seven participants from our service area. GM Case presented to the groups on one of the days and felt it went well and the participants were engaged. An executive summary is included in the board packet for more information.

BIOLOGICAL OPINION LITIGATION AND TALKING POINTS –

Due to time restraints, GM Case recommended the board members review this in more detail.

REPORTS

MANAGEMENT REPORT:

GM Case gave a summary of the management report, which was included in the board packet.

President Schmier reviewed the calendar of events, highlighting ones that board members would need to attend.

ADJOURNMENT

There being no further business, **Jay Hanson moved that the meeting be adjourned. Brent Robson second.** By consensus, the meeting was adjourned at 3:40 p.m.

DATE APPROVED: ____August 22, 2016____


Secretary, Dede Draper