

EMPIRE ELECTRIC ASSOCIATION, INC.
MINUTES OF THE REGULAR MEETING
OF THE BOARD OF DIRECTORS
August 11, 2017

Regular meeting of the board of directors of Empire Electric Association, Inc. was held Friday, August 11, 2017 with the following directors present: Bill Bauer, Jerry Fetterman, J. Kent Lindsay, William Mollenkopf, John Porter and David Sitton. Others present: General Manager Josh Dellinger, Attorney Shay Denning, Corporate Operations Manager Mary Thiesing, System Engineer Clint Rapier, Operations Manager Ken Tarr and Executive Secretary Denise Rosenbaugh. Director Sue McWilliams attended by teleconference.

Others Present: Members Heidi Brugger and Ellen Foster

President Bauer called the meeting to order at 8:30 a.m.

Approve Consent Agenda:

Action Item: President Bauer called for approval of the consent agenda. Motion by Porter to approve the consent items. Motion seconded by Lindsay and carried.

Membership Input:

Kelly Hebbard with Fast Track reported on FastTrack's current services and customer base. Discussion was also held regarding the board makeup of FastTrack.

Member Ellen Foster attended the board meeting and thanked Empire Electric for the work of Andy Carter in the Power to Seminars regarding solar power and net metering. She said the information was well done and informative.

Jeff Pope updated the board on KSJD and the progress of the Sunflower Theatre. His goal is to continue lecture and youth performances at free or reduced costs to patrons. He is asking for \$3,000 from Empire to support the Sunflower Theater's educational events. He will put together a formal request and get it to Empire in the near future.

Empire's communications specialist Denise Moore introduced local students Jake McKee and Kaitlyn Sweat who attended the CREA Youth Camp in Steamboat Springs. Member Services Manager Bobbe Jones introduced Ashley Cole who represented Empire at the Washington, DC youth tour. They reported on their trips. Also in attendance was Donna and Emily Cole.

Correspondence:

Thank you from:

- Mancos Days Committee for Empire's annual sponsorship
- Theresa Berger for the scholarship awarded to her
- Dove Creek Volunteer Fire Dept. for Empire's annual donation
- Energy Outreach Colorado for Empire's matching funds

Donation Requests:

None – Pope will submit a formal request for a donation to the Sunflower Theater and the board will consider the request after it is received.

Policy Review/Action:

Policy 11 – Delegation of Authority – no suggested changes.

Policy 56: Interconnection of Distributed Energy Resources: Dellinger reported that several major changes are suggested for this policy. Staff had been reviewing our regulatory requirements in Colorado and Utah and it prompted a review of this policy. The suggested changes clarify which rules apply to Empire Electric and gives guidance regarding net metering. Dellinger stepped through the policy and noted the proposed edits. Attorney Denning indicated that she had no additional changes to this revised policy and felt like staff “hit it out of the park.” Motion by Mollenkopf to approve Policy 56 as recommended by staff. Motion seconded by Sitton and carried. A copy of amended Policy 56 is attached to and made part of these minutes.

Lindsay left the meeting at 10:30 a.m.

General Manager Report:

Basin Electric’s annual meeting will be held November 8-9, 2017. Mollenkopf indicated an interest in attending this meeting and was elected authorized representative to this meeting per board consensus.

Board Committees were included in the written packet, and Bauer made no changes.

Bobbe Jones gave a presentation on the Empire Electric website as part of our external communications plan.

Thiesing reported on the financials. Current month’s gross margin was in line with budget and our bottom line and operating margins were ahead of budget for the month. For the year our gross margin and operating margin are below budget, while our bottom line margin is ahead of budget. Yearend margins are projected to be below budget. The sale of the transmission assets to Tri-State should close at the end of August. The proceeds from this sale will not affect our margin since there will be no gain or loss on this sale.

Thiesing also reported that Empire asked CFC for a proposal for refinancing our RUS guaranteed Federal Financing Bank (FFB) debt. The total debt refinanced will be lower than our existing FFB debt due to the RUS requirement that the net proceeds received for the sale of property be used to pay down existing RUS guaranteed debt or used to offset future RUS borrowing. Since RUS has no mechanism for paying down existing loans, we have always used these proceeds to offset new borrowing. Thiesing discussed the CFC refinance proposals that were included in the board packet. Empire’s FFB pre-payment penalty would be about \$2.5 million. We have \$5 million in the RUS cushion of credit which would be applied to the prepayment penalty and the remaining amount would also be used to buy down the debt. Both the fixed to maturity and partial variable rate proposals produced an overall positive cash flow and reduced interest expenses over the life of the loan. The proposal that contained some variable debt did not produce sufficient anticipated savings to offset the additional rate risk in an environment of rising interest rates. While the interest rates charged by FFB are very attractive, there are several regulatory constraints that make conducting business more onerous. Being able to use RUS best practices while eliminating some of the burdensome regulations will produce additional savings in future years. Staff recommended refinancing our current FFB debt through CFC with a fixed to maturity loan. The only downside to refinancing our FFB debt is forgoing the interest earnings on our cushion of credit deposits, but there is

concern that the RUS cushion of credit program may be changed so that future deposits are not paid interest as proposed by the current administration. The board agreed with the staff's approach. Staff hope to bring refinance documents for the board to consider to the next board meeting.

Last month the board expressed concern over BP115 projects and our contractual limits with Tri-State. Rapier directed the board to the information included in the packet and noted that with the two proposed solar projects we will be at 30% of our 15% capacity limit, and 29% of our 5% energy limit. Rapier also described where Empire would be at in regard to these limits under scenarios where significant load was lost.

Mollenkopf mentioned that the Tri-State contract committee voted to not open contracts.

Dellinger noted that we closed on the lakeside portion of Totten Lake land.

Dellinger also noted that the documents for the Tri-State asset transfer have been signed which includes the 115 kV retail assets and the Cahone to Anasazi portion of the CO2 loop.

At last month's meeting, Dellinger informed the board that Empire had been contacted by a tax firm that thought it could save the cooperative money by protesting our property taxes. Staff explored this and decided not to protest this year. We were pressed for time and did not want to rush through an agreement with the tax firm.

Dellinger noted that CDOT had made an offer to purchase .057 acres from us near Towaoc for about \$324.00 which would likely be less than it would cost us to go through the lien release process. Dellinger first brought this to the board in April and the board then said that it would be better for CDOT to just condemn the property than for us to lose money going through the lien release process. Dellinger informed CDOT of this direction. CDOT has since indicated they may be able to pay for the lien release process as that may be better for them than going through the condemnation process. Dellinger will work with them to see what they can offer.

All employee meeting will be held after board meeting on September 8 and Dellinger invited the board to attend.

Roundtable: Porter reported on the sale – Montezuma County Fair. San Juan County Fair is tomorrow.

Attorney: Denning reported on several issues: 1) her firm helped on Totten Lake property closing and contract termination; 2) they are standing by to review the new solar project agreements; 3) there is now a quorum of FERC commissioners so FERC can do business again. Perhaps the Tri-State petition for rehearing will move forward; 4) her firm has been assisting with the 115 kV transfer process; 5) her firm assisted with the bid process for warehouse building; 6) her firm reviewed agreements for the sale of our communications tower to FastTrack and the lease of equipment space; 7) they are also reviewing Ute Mtn Ute joint use agreement; 8) she reviewed and commented on Alteration of Facilities agreement EEA uses when it needs to fix facilities if they are not safe.

Tri-State:

Mollenkopf reported on the Tri-State meeting. He discussed issues regarding the Holcomb generating station and how to account for the costs associated with it. Tri-State's financials are good. They reviewed a draft budget and were anticipating a 4 to 5 % rate increase, but staff presented a budget that does not require an increase. Mollenkopf distributed and discussed a five-year outlook on rate increases. This

budget meets all financial goals. One thing of note for Empire was the 115 to 230 kV upgrade on the line from Montrose to Nucla to Cahone in 2018. \$37 million is budgeted to start this project next year. Settlement/mediation on the Las Conchas fire is expected to occur soon. Tri-State thought joining SPP would be smooth sailing but WAPA is becoming problematic and delaying the process. In month of June, coal production was 51% of total.

Dellinger mentioned he attended the managers meeting in Meeker and discussed the tour of ColoWyo mine.

CREA: Porter said there was no meeting but he did pass around a Colorado Climate Change guide prepared by the Colorado Foundation for Water Education.

Western United: McWilliams reported that Western United did not meet. Fish Fry is in August.

Utah Rural Electric Cooperative Association: no report.

Committees:

Action Item: Building Committee: Dellinger reported that four packets have been picked up and they have until the end of this month to get bids back to Empire.

Executive Session:

Motion by Sitton to go into executive session to discuss the Totten Lake property sale and the FastTrack report. Seconded by Fetterman and carried. The board went into executive session at 12:03 p.m. The board came out of executive session at 12:35 p.m.

FastTrack:

Given earlier by Hebbard and supplemented in executive session.

Adjournment:

Meeting adjourned at 12:36 p.m.

Bill Bauer, President

Jerry Fetterman, Secretary/Treasurer