

2 PM - Governance Committee Meeting

BOARD OF DIRECTORS MEETING
October 28, 2019 at 3:00 PM



AGENDA

1. Meeting Called to Order
2. Determination of Quorum
3. Approval of Agenda
4. Member Communications
5. Approval of Consent Agenda **(Tab 2)**
 - a) Minutes from September 23, 2019
 - b) New Members
 - c) September 2019 – Form 7
 - d) Statement of Operations
 - e) Power & Service Data
 - f) Capital Expenditures by Project
 - g) Cash Flow
6. Committee Reports
 - a) Governance Committee
7. Meetings Attended
 - a) PNGC Annual Meeting - Portland, OR, September 30th and October 1st – David and Alan
 - b) PNGC Special Board Meeting – October 11th – By Conference Call - David
 - c) WRECA Manager's Meeting – October 22nd - North Bend – David
8. Meetings to Attend

- a) PNGC November Meeting – November 4th and 5th - Portland – David by Conference Call
- b) CFC IBES Conference/ CFC Compass Financial Model Training - November 11th to 13th – Huntington Beach, CA – David
- c) Washington State Electric Utilities Wildland Fire Task Force Meeting - November 15 – Olympia – David

9. General Managers Report (Tab 3)

- a) Office Update
- b) Operations Update
- c) Propane Update

ITEMS OF BUSINESS

- 1) Approve Equity Management Proposal (**Tab 4**)
- 2) Decision on Possible New Rates - Final COSA documents were sent by earlier by e-mail.
- 3) Approve 2019 Capital Credit Retirement
- 4) Approve New Banking Resolution

OPEN FLOOR FOR BOARD MEMBERS

EXECUTIVE SESSION

- a) Subsidiary Update
- b) Litigation Update
- c) General Manager's Goals Update



BOARD MEETING
September 23, 2019

Present: Sara Carlberg, Dale Sekijima (Board Chair), Ray Peterson, John Kirner, Michael Murray, Chris Legler and Alan Watson.

Attending: David Gottula; General Manager, Lynn Northcott; CFO, Glenn Huber; Operations Manager, Tracy McCabe; OCEI Manager, and Teri Parker; Office Staff.

Guests: Jennifer Sands, Attorney; Ogden/Murphy/Wallace PLLC.

Members in Attendance: None

PRELIMINARY

1. MEETING CALLED TO ORDER

President Dale Sekijima called the meeting of the Board of Directors of Okanogan County Electric Cooperative, Inc. (OCEC) to order at 3:00 pm.

2. DETERMINATION OF QUORUM

A quorum was present.

3. APPROVAL OF AGENDA

Chris Legler presented his resignation from the Board.
Filling the Chris Legler vacancy was added as Business Item No. 8.

Agenda approved by Board consensus.

4. MEMBER COMMUNICATIONS

None.

5. APPROVAL OF CONSENT AGENDA ITEMS

Consent Agenda approved by Board Consensus.

6. COMMITTEE REPORT

Alan Watson reported the Finance Committee will bring an OCEC equity management strategy to the board for approval at the October 28th Board meeting.

Michael noted the Governance Charter discussion is on the Agenda.

7. MEETINGS ATTENDED

- a) PNGC Transmission/Generation Seminar – Aug 27th – 2PM – OCEC Board Room
- b) PNGC September Board Meeting – Portland OR – Sept 4th – Dale

Dale reported the meeting was business as usual, no updates to report.

- c) State of Washington Wildland Fire Task Force Meeting – Olympia – Sept 4th – David

David Gottula is representing Cooperatives on the taskforce. He reported they are looking at how the DNR currently conducts wildfire investigations. DNR is considering bringing in independent third party experts to assist in investigations concerning causes of wildfires. The taskforce is also looking at tree removal policies; reducing risks by making it easier to remove danger trees from lines on DNR land.

- d) WRECA Quarterly Meeting – September 9th and 10th – North Bend - David

David reported CFC is offering COSA (Cost of Service Analysis) and Strategic Planning services at no cost to Cooperatives.

8. MEETINGS TO ATTEND

- a. PNGC Annual Meeting – Sept 30th to Oct 2nd – David, Sara & Alan
- b. WRECA Manager's Meeting – October 22nd – North Bend - David

9. GENERAL MANAGERS REPORT

Written report reviewed.

a) Office Update

Lynn reported OCEC's new website is active and Mark Crum, IT, is working on a phone App in addition to the website. We are waiting on SEDC – our software provider to finalize the App.

b) Operations Update

Glenn Huber reported:

- Reclosures have been reset to normal from summer 'one-shot' settings.
- 2019 pole replacements are completed for the season.
- Edelweiss project is completed for 2019 and will pick up again next year. Work will continue on the Mazama feeder upgrade as weather and scheduling allows.

c) OCEI Propane Update

Tracy reported OCEI now offers online bill pay service through the OCEI website. Customers are being informed and educated on how to use the service via phone calls, flyers included in statements, and other mailings.

ITEMS OF BUSINESS

1. Procedural Change to Board Discussions

Dale Sekijima reviewed his proposal for procedural changes to Board discussion process intended to generate better focus during business item discussion and to improve utilization of Board meeting time.

Points discussed were:

- Complicated/significant business items should be presented at a Board meeting preceding request for approval seeking questions and input for refinement.
- The sponsor of a business item must formulate a motion concise enough to enable focused discussion.
- Discussion during consideration approval of an item of business is focused on the motion.

- Discussion structure; giving each Board member the chance to speak for/against the motion.
- Improving the efficiency of Board meetings and reducing confusion on items presented for Board approval.

The Board consensus is to approve and implement the proposed changes with consideration of modification as needed.

Approved proposal is attached to the minutes.

2. Approval of Purchase of 2012 Prius for \$11,000

Lynn Northcott reviewed the proposed purchase of the 2012 Toyota Prius, for Staff and Board member travel, brought before the Board for discussion at the August Board meeting.

Alan Watson moved to approve the capital purchase of the 2012 Toyota Prius for \$11,000. Seconded by Chris Legler.

Discussion: John Kirner commented with the concern that a Prius is not much of a snow car.

Sara expressed concern for the battery age and replacement cost for the Prius battery. Lynn noted the previous owner did talk about a battery being replaced but she did not know the details.

Sara questioned the vehicle value at the price requested and introduced a secondary motion to withdraw the primary motion due to the appearance of possible inappropriateness. No second. Secondary motion failed.

Michael Murray supported the purchase, noting that the Co-op could sell the vehicle if it finds the Prius is not being utilized.

Dale asked for further discussion; hearing none the discussion was closed and the vote was called: Six votes in favor with Sara Carlberg casting an opposing vote. Motion to purchase the Prius was approved.

3. Review Form 990

Form 990 was provided at the meeting for review, giving the Board the opportunity to approve it. Form 990 was approved contingent on Alan's final examination.

4. Approve Revised Policy 30-210 Disconnection and Reconnection of Service

Michael Murray moved to accept the revised Policy No. 30-210 Disconnection and Reconnection of Service and delete Policy No. 30-212 Disconnect Switch Interbase. Second. Motion passed.

5. Approve Deleting Policy 30-212 Disconnect Switch Interbase – Policy was incorporated into Policy 30-210

Motion for delete was included in above motion. See Item No. 4.

6. Discussion of COSA/Rates – Expectation is that there will be no change in current rate structure.

The presentation with EES prior to the Board meeting pointed out problems in the calculation of the revenue requirement for the various service categories.

- The irrigation season was erroneously defined as 12 months instead of the 5 month actual season.
- Irrigation meter and service fees were set too high in the 2019 COSA relative to the agreed upon values in the 2015 COSA.
- It was noted that revised COSA documents should arrive within a week, giving the Board ample time of review before the Oct. 28th meeting.

Dale opened the floor for discussion:

- Ray Peterson suggested that OCEC may need to tweak the irrigation and second meter rates to bring them to a 20% subsidy level. He suggests these two items be tabled until the completed COSA is provided by EES.
- Sara Carlberg does not agree with a subsidy for irrigators as a class.
 - Sara would like the Board to decide on whether to do a subsidy and, if so, decide on a level.
- Alan Watson noted he is philosophically opposed to subsidies, however, he supports and respects the wishes of the members. He would support an irrigation subsidy.
- Michael Murray agreed with Alan, noting that it should be made difficult to create other subsidies.

- John Kirner noted that irrigation is a key part of the Methow Valley culture. He is inclined to support an irrigation subsidy.
- Chris Legler is in favor of irrigation subsidy at a 20% level with Board approval.

David Gottula noted the issue could be addressed in the Newsletter or at a rate meeting for members.

Dale noted that subsidies will be part of a Rate approval business item at the October 28th meeting.

7. Discussion of Standing Committee Charters

Alan Watson reported the Finance Committee has approved the proposed Charter of The Board Finance Committee with no changes.

Michael Murray reported the Governance Committee has approved the proposed Governance Committee Charter with no changes.

Michael Murray moved to approve the OCEC Charter of Board Finance Committee and OCEC Governance Committee Charter as presented, and to post both Charters on the OCEC website. Second. Passed.

8. Filling vacancy due to Chris Legler Resignation

Chris Legler submitted his resignation from the Board. Given the expected close of his house sale by mid October, the expectation is that he will probably not attend the October Board meeting and if he does, will not attend as a voting director.

The Board discussed guidelines from OCEC By Laws regarding the replacement of a Director. At the next Governance Committee meeting the committee will review:

- By Laws, Policies and Procedures;
- Timing established for filling the open Board position;
- Define the process for recruiting a replacement, requiring a resume and advertising the position in OCEC's newsletter.

OPEN FLOOR FOR BOARD MEMBERS

Michael spoke about a podcast of energy topics he would like to share with other members of the Board. The podcast topic he will share covers the California wildfire management and talks

about the trickle down effects, such as the cost of and availability of homeowner's insurance in high risk areas.

Meeting adjourned 4:15 pm.

EXECUTIVE SESSION

1. Litigation Update

Alan Watson, Secretary

To: OCEC Board
From: Dale Sekijima: OCEC Board President
Cc: David Gottula: General Manager, Lynn Northcott CFO
Date: Sep 17, 2019
Re: Procedural Changes To Board Discussion

The following defines some procedural changes to Board discussion to improve utilization of Board meeting time. The goal is a balance between informality and getting enough focus to increase efficiency.

These changes, which bring us a bit closer to Roberts Rules of Order, are intended to focus discussion during consideration of an approval motion for an item of business and give everyone a chance to participate in an orderly manner. Outside the changes described below the Board will continue to handle other business in an informal manner.

An item of business calling for Board approval will need a motion and a second to begin discussion. This places responsibility on the committee/staff/Board member sponsoring a business item to have A) presented the business item at an earlier Board meeting seeking questions and input for refinement, B) formulated a Board motion concise enough to focus discussion.

The initial presentation allows Board members to ask clarifying questions and raise points of information, but it is not a venue for debate. When the business item is brought to the Board again for approval, the objective is to vote on the proposal.

The principal possible actions for a business item under motion are:

1. Approval/disapproval as proposed
2. Amendment of the motion before Approval/disapproval vote
3. Referral to a committee
4. Postponement until a specific action or future event occurs
5. Withdrawal of the proposal

Discussion will have the following structure

- a. Time is held to 2 minutes per Board member with the business item sponsor speaking first.
- b. All Board members will be given the opportunity to speak, one at a time, for or against the business item and must focus on the proposal. Board members are allowed to speak without interruption but may not solicit open discussion. A Board member, having spoken, must wait until others have had the opportunity to speak before speaking a second/subsequent time.
- c. Discussion ends when Board members have finished or when the Board chair closes discussion.
- d. Actions 2-5 above may occur during discussion based on a member motion plus a majority vote.
- e. If no deferral action is taken, an up or down majority vote decision follows the close of discussion.

A small but important example handling a business item efficiently:

The proposed Prius purchase, a business item for approval at the Sept. Board meeting. Lynn Northcott brought the item up in August describing the cost/benefits, soliciting the Board's questions/concerns and asking the Board to consider purchase. Based on the Board's general support she committed to ascertain the staff's interest and bring the Prius purchase for approval at the upcoming Board meeting.

New Members OCEC**October 28, 2019****REINSTATE**

- | | |
|--|--------|
| 1. MICHELSEN NATHAN | 114141 |
| 2. HINTON DOUGLAS B & EMERSON-HINTON DAWNA | 114060 |
| 3. BICKEL SONJA | 115040 |

NEW MEMBERS

- | | |
|------------------------------------|--------|
| 1. PRUETT-JONES STEPHEN & MELINDA | 119139 |
| 2. ANDREW REX & MARILEE | 119140 |
| 3. MOE SOKTHEARY & RENDYN | 119141 |
| 4. WIERSUM TODD & HELM LISA | 119142 |
| 5. RUSSELL TAMMY & LESLIE | 119143 |
| 6. NILSON ERIK | 119144 |
| 7. WHITEHEAD CONOR & FULLER STORMY | 119145 |
| 8. DARWOOD ALISON & MARK | 119146 |
| 9. STANTON THOMAS G & LESLIE D | 119147 |
| 10. MCLEAN GUY & LAURIE | 119148 |
| 11. SHINER MELINDA & TITUS ROBERT | 119149 |
| 12. THOMPSON ROSE | 119150 |
| 13. BRYANT ALEJANDRA & WORAS SHANE | 119151 |
| 14. GNUSCHKE JERALD & MICHELLE | 119152 |
| 15. SATKO REBECCA & WILLIAM | 119153 |
| 16. DYLAN PATRIK & JODY | 119154 |
| 17. DAMMER KARINE & JACOBSEN JENS | 119155 |



NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION FINANCIAL AND STATISTICAL REPORT	BORROWER NAME	Okanogan County Electric Coop Inc
	BORROWER DESIGNATION	WA032
	ENDING DATE	9/30/2019

Submit one electronic copy and one signed hard copy to CFC. Round all numbers to the nearest dollar.

CERTIFICATION	BALANCE CHECK RESULTS	AUTHORIZATION CHOICES	
We hereby certify that the entries in this report are in accordance with the accounts and other records of the system and reflect the status of the system to the best of our knowledge and belief.	<div style="display: flex; align-items: center;"> <div style="border: 1px solid black; padding: 5px; margin-right: 10px;"> <div style="background-color: #a00000; color: white; border-radius: 50%; width: 20px; height: 20px; display: flex; align-items: center; justify-content: center; margin: 0 auto;">8</div> <p>Needs Attention</p> </div> <div style="background-color: #ffff00; border-radius: 50%; width: 20px; height: 20px; display: flex; align-items: center; justify-content: center; margin: 0 auto;">6</div> <p>Please Review</p> </div> <div style="background-color: #008000; border-radius: 50%; width: 20px; height: 20px; display: flex; align-items: center; justify-content: center; margin: 0 auto;">4</div> <p>Matches</p>	<p>A. NRECA uses rural electric system data for legislative, regulatory and other purposes. May we provide this report from your system to NRECA?</p> <div style="display: flex; justify-content: space-around;"> <input checked="" type="radio"/> YES <input type="radio"/> NO </div>	
<div style="display: flex; justify-content: space-between;"> <div style="border-bottom: 1px solid black; padding-bottom: 5px;"> </div> <div style="border-bottom: 1px solid black; padding-bottom: 5px;">10/14/19</div> </div> <p>Signature of Office Manager or Accountant Date</p>			<p>B. Will you authorize CFC to share your data with other cooperatives?</p> <div style="display: flex; justify-content: space-around;"> <input checked="" type="radio"/> YES <input type="radio"/> NO </div>
<div style="display: flex; justify-content: space-between;"> <div style="border-bottom: 1px solid black; padding-bottom: 5px;"> </div> <div style="border-bottom: 1px solid black; padding-bottom: 5px;">10/15/19</div> </div> <p>Signature of Manager Date</p>			

PART A. STATEMENT OF OPERATIONS

ITEM	YEAR-TO-DATE			THIS MONTH
	LAST YEAR	THIS YEAR	BUDGET	
	(a)	(b)	(c)	
1. Operating Revenue and Patronage Capital	4,083,318	4,280,839	4,241,159	365,301
2. Power Production Expense	0	0	0	0
3. Cost of Purchased Power	2,018,067	2,111,661	2,069,423	185,532
4. Transmission Expense	0	0	0	0
5. Regional Market Operations Expense	0	0	0	0
6. Distribution Expense - Operation	67,233	78,817	65,253	6,802
7. Distribution Expense - Maintenance	443,745	512,610	481,168	37,316
8. Consumer Accounts Expense	221,823	221,379	233,451	24,544
9. Customer Service and Informational Expense	5,015	4,125	2,916	257
10. Sales Expense	5,359	4,294	(2,988)	3,827
11. Administrative and General Expense	430,745	557,674	499,646	59,790
12. Total Operation & Maintenance Expense (2 thru 11)	3,191,987	3,490,561	3,348,869	318,067
13. Depreciation & Amortization Expense	287,033	283,297	293,218	30,046
14. Tax Expense - Property & Gross Receipts	33,757	33,895	31,018	3,766
15. Tax Expense - Other	126,294	131,855	133,341	11,195
16. Interest on Long-Term Debt	151,990	146,386	146,424	15,817
17. Interest Charged to Construction (Credit)	19	0	0	0
18. Interest Expense - Other	0	0	0	0
19. Other Deductions	0	0	0	0
20. Total Cost of Electric Service (12 thru 19)	3,791,080	4,085,994	3,952,870	378,891
21. Patronage Capital & Operating Margins (1 minus 20)	292,238	194,845	288,289	(13,590)
22. Non Operating Margins - Interest	16,533	19,970	19,567	4,874
23. Allowance for Funds Used During Construction	0	0	0	0
24. Income (Loss) from Equity Investments	27,132	22,143	30,000	23,697
25. Non Operating Margins - Other	13,500	13,500	13,500	1,500
26. Generation & Transmission Capital Credits	0	0	0	0
27. Other Capital Credits & Patronage Dividends	0	0	0	0
28. Extraordinary Items	0	0	0	0
29. Patronage Capital or Margins (21 thru 28)	349,404	250,458	351,356	16,481

PART B. DATA ON TRANSMISSION AND DISTRIBUTION PLANT

ITEM	YEAR-TO-DATE		ITEM	YEAR-TO-DATE	
	LAST YEAR	THIS YEAR		LAST YEAR	THIS YEAR
	(a)	(b)		(a)	(b)
1. New Services Connected	37	43	5. Miles Transmission	0	0
2. Services Retired	4	6	6. Miles Distribution Overhead	302	303
3. Total Services In Place	3,765	3,819	7. Miles Distribution Underground	212	221
4. Idle Services (Exclude Seasonal)	101	98	8. Total Miles Energized (5+6+7)	514	524



NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION FINANCIAL AND STATISTICAL REPORT	BORROWER NAME	Okanogan County
	BORROWER DESIGNATION	WA032
	ENDING DATE	09/30/2019

PART C. BALANCE SHEET			
ASSETS AND OTHER DEBITS		LIABILITIES AND OTHER CREDITS	
1. Total Utility Plant in Service	14,129,529	29. Memberships	16,385
2. Construction Work in Progress	331,046	30. Patronage Capital	7,998,794
3. Total Utility Plant (1+2)	14,460,574	31. Operating Margins - Prior Years	834,473
4. Accum. Provision for Depreciation and Amort	4,864,049	32. Operating Margins - Current Year	236,958
5. Net Utility Plant (3-4)	9,596,525	33. Non-Operating Margins	13,500
6. Nonutility Property - Net	0	34. Other Margins & Equities	481,638
7. Investment in Subsidiary Companies	827,067	35. Total Margins & Equities (29 thru 34)	9,581,747
8. Invest. in Assoc. Org. - Patronage Capital	363,731	36. Long-Term Debt CFC (Net)	0
9. Invest. in Assoc. Org. - Other - General Funds	0	37. Long-Term Debt - Other (Net)	3,273,771
10. Invest in Assoc. Org. - Other - Nongeneral Funds	144,438	38. Total Long-Term Debt (36 + 37)	3,273,771
11. Investments in Economic Development Projects	0	39. Obligations Under Capital Leases - Non current	0
12. Other Investments	13,500	40. Accumulated Operating Provisions - Asset Retirement Obligations	0
13. Special Funds	0	41. Total Other Noncurrent Liabilities (39+40)	0
14. Total Other Property & Investments (6 thru 13)	1,348,737	42. Notes Payable	0
15. Cash-General Funds	774,184	43. Accounts Payable	324,710
16. Cash-Construction Funds-Trustee	0	44. Consumers Deposits	157,560
17. Special Deposits	101,605	45. Current Maturities Long-Term Debt	0
18. Temporary Investments	138,460	46. Current Maturities Long-Term Debt-Economic Dev.	0
19. Notes Receivable - Net	0	47. Current Maturities Capital Leases	0
20. Accounts Receivable - Net Sales of Energy	359,471	48. Other Current & Accrued Liabilities	236,440
21. Accounts Receivable - Net Other	976,173	49. Total Current & Accrued Liabilities (42 thru 48)	718,710
22. Renewable Energy Credits	0	50. Deferred Credits	0
23. Materials & Supplies - Electric and Other	262,051	51. Total Liabilities & Other Credits (35+38+41+49+50)	13,574,228
24. Prepayments	14,867	ESTIMATED CONTRIBUTION-IN-AID-OF-CONSTRUCTION	
25. Other Current & Accrued Assets	966	Balance Beginning of Year	0
26. Total Current & Accrued Assets (15 thru 25)	2,627,778	Amounts Received This Year (Net)	315,194
27. Deferred Debits	1,189	TOTAL Contributions-In-Aid-Of-Construction	315,194
28. Total Assets & Other Debits (5+14+26+27)	13,574,228		

PART D. THE SPACE BELOW IS PROVIDED FOR IMPORTANT NOTES REGARDING THE FINANCIAL STATEMENT CONTAINED IN THIS REPORT.

OKANOGAN COUNTY ELECTRIC COOPERATIVE, INC.

STATEMENT OF OPERATIONS

September 30, 2019

	ANNUAL BUDGET	Y-T-D BUDGET	Y-T-D ACTUAL	MONTH BUDGET	MONTH ACTUAL
OPERATING REVENUE	\$5,891,986	\$4,241,159	\$4,280,839	\$392,811	\$365,301
COST OF POWER	\$2,831,793	\$2,069,423	\$2,111,661	\$191,320	\$185,532
GROSS MARGINS	\$3,060,193	\$2,171,736	\$2,169,178	\$201,491	\$179,769
OPERATING EXPENSES:					
DISTRIBUTION OPERATIONS	\$93,080	\$65,253	\$78,817	\$7,484	\$6,802
DISTRIBUTION MAINTENANCE	\$593,844	\$481,168	\$512,610	\$42,413	\$37,316
CONSUMER ACCOUNTING	\$305,739	\$233,451	\$221,379	\$27,243	\$24,544
CONSUMER SERVICE & INFO	\$3,687	\$2,916	\$4,125	\$257	\$257
SALES EXPENSE	-\$2,988	-\$2,988	\$4,294	\$0	\$3,827
ADMIN & GENERAL	\$631,819	\$499,646	\$557,674	\$48,012	\$59,790
TOTAL OPERATING EXPENSES	\$1,625,181	\$1,279,446	\$1,378,900	\$125,409	\$132,535
FIXED EXPENSES:					
DEPRECIATION	\$391,573	\$293,218	\$283,297	\$32,785	\$30,046
TAXES-PROPERTY	\$41,344	\$31,018	\$33,895	\$3,442	\$3,766
TAXES-OTHER	\$175,255	\$133,341	\$131,855	\$13,971	\$11,195
INTEREST	\$194,329	\$146,424	\$146,386	\$16,120	\$15,817
OTHER DEDUCTIONS	\$0	\$0	\$0	\$0	\$0
TOTAL FIXED EXPENSES	\$802,502	\$604,001	\$595,433	\$66,319	\$60,824
TOTAL EXPENSES	\$2,427,682	\$1,883,447	\$1,974,333	\$191,728	\$193,359
OPERATING MARGINS	\$632,511	\$288,289	\$194,845	\$9,763	-\$13,590
NONOPERATING MARGINS:					
INTEREST	\$72,523	\$19,567	\$19,970	\$4,886	\$4,874
OTHER	\$18,000	\$43,500	\$35,643	\$26,500	\$25,197
NET MARGINS	\$723,034	\$351,356	\$250,458	\$41,149	\$16,481
T.I.E.R.	4.72	3.40	2.71	3.55	2.04

OKANOGAN COUNTY ELECTRIC COOPERATIVE, INC.

POWER & SERVICE DATA
September-19

	June 2019	July 2019	August 2019	September 2019	September 2018
POWER DATA:					
COST OF POWER	\$171,040	\$186,320	\$179,182	\$185,532	\$174,731
KWH PURCHASED	3,555,950	3,986,765	4,066,370	3,504,995	3,523,645
KWH SOLD & OCEC USE	3,021,501	3,748,447	3,729,235	3,165,203	3,204,941
KWH LOST	534,449	238,318	337,135	339,792	318,704
LINE LOSS %	15.03%	5.98%	8.29%	9.69%	9.04%
COST PER KWH	\$0.0481	\$0.0467	\$0.0441	\$0.0529	\$0.0496
BILLING DATA:					
ACCOUNTS BILLED	3,819	3,817	3,816	3,823	3,762
AVG. KWH/CONSUMER	791	982	977	828	852
BILLING REVENUE	\$359,538	\$396,963	\$395,642	\$363,237	\$362,624
AVERAGE BILL	\$94.14	\$104.00	\$103.68	\$95.01	\$96.39
REVENUE/KWH SOLD	\$0.1190	\$0.1059	\$0.1061	\$0.1148	\$0.1131
SERVICE DATA:					
NEW	9	6	6	5	8
RETIRED	2	0	0	0	1
TOTAL END OF MONTH	3802	3808	3814	3819	3765
IDLE SERVICES	101	99	99	98	101
TRANSPORTATION:					
TOTAL MILES	8,813	4,535	7,382	7,322	5,718
COST OF OPERATION	\$19,406	\$18,963	\$7,761	\$13,223	\$17,940
AVG. COST PER MILE	\$2.202	\$4.182	\$1.051	\$1.806	\$3.137
MATERIALS:					
ISSUES	\$16,546	\$16,417	\$18,680	\$11,450	\$15,319
INVENTORY	\$250,787	\$241,661	\$262,683	\$262,051	\$301,064

Okanogan County Electric Cooperative Inc
 Capital Expenditures by Project
 Sep-19

	Current Month			Year to Date			Annual	Annual
	Actual	Budget	Variance	Actual	Budget	Variance	Budget	Balance
Member Requested Facilities	41,528.92	33,532.00	(7,996.92)	171,362.47	199,437.00	28,074.53	288,855.00	117,492.53
Replacements (Poles & Transformers)	18,608.78	11,703.00	(6,905.78)	167,987.71	47,786.00	(120,201.71)	65,925.00	(102,062.71)
Misc URD/OH Replacement Projects	(1,772.40)	0.00	1,772.40	40,232.48	52,893.00	12,660.52	72,685.00	32,452.52
Replace 2500' of URD at Stud Horse - Part 2	0.00	0.00	0.00	0.00	56,608.00	56,608.00	56,609.00	56,609.00
Replace 2500' of URD at Edelweiss - Part 2	14,948.02	37,992.00	23,043.98	49,789.88	100,833.00	51,043.12	123,217.00	73,427.12
Mazama Upgrade (first of multiple phases)	24,320.39	0.00	(24,320.39)	55,348.35	13,349.00	(41,999.35)	51,897.00	(3,451.35)
Complete URD loop at Sky Ranch	5,131.10	18,870.00	13,738.90	20,412.49	37,740.00	17,327.51	37,739.00	17,326.51
Cordination Study - Part 1 of 2	0.00	0.00	0.00	0.00	0.00	0.00	15,000.00	15,000.00
Major Storm Damage	0.00	0.00	0.00	4,625.60	9,667.00	5,041.40	16,264.00	11,638.40
Raise level of Garage Door to match others	0.00	0.00	0.00	✓ 10,161.71	10,000.00	(161.71)	10,000.00	(161.71)
Pole Inspections	0.00	0.00	0.00	17,929.03	10,000.00	(7,929.03)	10,000.00	(7,929.03)
Fire Retardant/Treatment on Poles	0.00	0.00	0.00	22,409.19	20,739.00	(1,670.19)	20,739.00	(1,670.19)
Meter Projects (replace CTs)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Purchase Pole Tamper and other tools	0.00	0.00	0.00	✓ 5,656.30	18,000.00	12,343.70	18,000.00	12,343.70
Purchase Phase Tracker	0.00	0.00	0.00	✓ 5,950.00	6,000.00	50.00	6,000.00	50.00
Roof Extension on Back Walkway	0.00	0.00	0.00	0.00	0.00	0.00	10,000.00	10,000.00
subtotal	102,764.81	102,097.00	(667.81)	571,865.21	583,052.00	11,186.79	802,930.00	231,064.79
Un Allocated Overhead	7,074.75			7,074.75	0.00	(7,074.75)		
Member CIAC	(52,491.18)	(50,000.00)	(2,491.18)	(315,194.47)	(136,650.00)	(178,544.47)	(340,000.00)	(24,805.53)
Total less CIAC	57,348.38			263,745.49			462,930.00	
Meters Purchases	0.00	0.00	0.00	20,449.80	35,000.00	14,550.20	35,000.00	14,550.20
Computers & Software Upgrades	0.00	0.00	0.00	2,397.71	18,000.00	15,602.29	18,000.00	15,602.29
Transformers Purchases	0.00	0.00	0.00	165,812.17	130,000.00	(35,812.17)	130,000.00	(35,812.17)
FEMA Reimbursment	0.00	0.00	0.00	(176,985.17)	(174,000.00)	2,985.17	(174,000.00)	2,985.17
Vehicle Replacement	0.00	39,000.00	39,000.00	0.00	220,000.00	220,000.00	220,000.00	220,000.00
Total	50,273.63	91,097.00		268,345.25	675,402.00		229,000.00	217,325.49
					Total Capital Budget less CIAC		691,930.00	423,584.75

* \$116,037.99 holding in CIAC 09/30/19

* Note

	Line Crew Direct Labor	Materials	107.25 Labor	Consultants Contractors	Transportation	Benefits	Total
January	1,196.50	60.00	1,200.00	0.00	775.28	1,107.37	4,339.15
February	692.40	2,192.47	1,500.00	0.00	534.46	529.70	5,449.03
March	1,717.07	60.00	2,000.00	0.00	1,049.81	1,150.19	5,977.07
April	18,457.94	3,279.74	22,000.00	0.00	8,131.73	9,854.61	61,724.02
May	15,911.13	17,958.76	20,000.00	0.00	9,564.58	10,850.16	74,284.63
June	18,998.45	19,053.32	31,000.00	0.00	8,709.26	10,711.76	88,472.79
July	21,470.46	49,686.41	35,699.47	0.00	8,324.69	16,343.53	131,524.56
August	18,953.79	10,877.44	30,000.00	0.00	3,962.22	11,767.69	75,561.14
September	20,024.10	32,587.10	30,000.00	0.00	6,804.77	13,348.84	102,764.81
October							0.00
November							0.00
December							0.00
	117,421.84	135,755.24	173,399.47	0.00	47,856.80	75,663.85	550,097.20

* Note: 107.25 is Capitalized Labor that includes: cost estimates, line staking, development & research for construction projects that no work order has been established. Along with Stores account 163.00 material stocking.

Okanogan County Electric Cooperative Inc
Budget Year: 2019

	2018	Budget year												
		Jan - Dec	January	February	March	April	May	June	July	August	September	October	November	December
Patronage Capital or Margins	\$0	\$723,035	\$61,097	\$128,143	\$2,671	(\$698)	\$11,211	(\$2,152)	\$11,504	\$22,200	\$16,481	\$17,627	\$99,710	\$254,342
Plus Depreciation Expense	\$0	\$391,571	\$32,521	\$32,535	\$32,691	\$32,787	\$32,857	\$29,809	\$30,207	\$29,843	\$30,046	\$32,785	\$32,785	\$32,785
Less Capital Credit Allocations	\$0	\$0	(\$3,435)	(\$1,702)	\$1,384	\$7	(\$258)	(\$933)	\$4,332	(\$41,593)	(\$1,401)	\$0	\$0	\$0
Plus FAS 158 Amortization	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total (Funds From Operations)	\$0	\$1,114,606	\$90,183	\$158,976	\$36,746	\$32,096	\$43,810	\$26,725	\$46,044	\$10,450	\$45,126	\$50,412	\$132,495	\$287,127
Cash Construction Funds - Trustee	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Special Deposit	\$0	(\$89,275)	(\$7,862)	(\$7,333)	(\$8,146)	(\$7,408)	(\$7,604)	(\$7,604)	(\$7,937)	(\$6,967)	(\$7,075)	(\$7,111)	(\$7,111)	(\$7,111)
Temporary Investment	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Accounts Receivable - Sale of Energy (Net)	\$0	(\$88,132)	(\$103,691)	(\$57,136)	\$139,128	\$221,224	\$1,832	\$11,945	\$15,847	(\$4,465)	\$30,840	(\$6,131)	(\$6,131)	(\$6,131)
Accounts Receivable - Other (Net)	\$0	\$89,275	\$7,991	\$7,333	\$13,924	\$7,408	\$7,604	\$13,439	(\$132,063)	\$6,967	\$12,966	\$7,111	\$7,111	\$7,111
Regulatory Assets	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Deferred Debits	\$0	\$0	\$0	\$0	\$0	\$0	(\$401)	\$206	\$195	\$0	(\$1,189)	\$0	\$0	\$0
Prepayments	\$0	\$0	(\$54,513)	\$4,955	\$4,956	\$4,956	\$4,956	\$4,956	\$4,956	\$4,956	\$4,956	\$0	\$0	\$0
Other Current & Accrued Asset	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
(Increase)/Decrease in Operating Assets	\$0	\$1,026,474	(\$67,892)	\$106,795	\$186,608	\$258,276	\$50,196	\$49,666	(\$72,959)	\$10,941	\$85,624	\$44,281	\$126,363	\$280,995
Notes Payable	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Accounts Payable	\$0	\$0	\$135,626	\$104,102	(\$108,304)	(\$140,749)	\$3,086	\$155,462	\$31,445	(\$203,919)	\$232	\$0	\$0	\$0
Accumulated Operating Provisions	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Regulatory Liabilities	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Other Deferred Credits	\$0	\$0	(\$53,905)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Other Current and Accrued Liabilities	\$0	\$0	\$51,791	\$35,845	(\$19,828)	(\$18,639)	\$22,814	(\$15,157)	\$5,584	\$21,618	(\$30,210)	\$0	\$0	\$0
Increase/(Decrease) in Operating Liabilities	\$0	\$0	\$133,513	\$139,947	(\$128,132)	(\$159,388)	\$25,900	\$140,305	\$37,029	(\$182,301)	(\$29,978)	\$0	\$0	\$0
CASH FROM OPERATING ACTIVITIES	\$0	\$1,026,474	\$65,621	\$246,742	\$58,476	\$98,888	\$76,096	\$189,971	(\$35,930)	(\$171,360)	\$55,646	\$44,281	\$126,363	\$280,995
INVESTMENT ACTIVITIES														
Total Utility Plant	\$0	(\$1,233,860)	(\$221,241)	(\$6,978)	(\$67,672)	(\$56,248)	\$934	(\$190,163)	\$152,859	\$183,617	(\$63,602)	(\$112,848)	(\$112,848)	(\$112,848)
Cost to Retire Utility Plant	\$0	\$0	(\$984)	(\$46,715)	\$6,821	\$7,217	\$5,604	\$3,009	(\$137,436)	(\$22,389)	\$2,320	\$7,238	\$7,238	\$7,238
Construction Work-in-Progress	\$0	\$174,000	\$188,906	\$99,244	(\$5,414)	(\$56,801)	(\$77,128)	(\$86,494)	(\$130,101)	(\$28,933)	(\$62,649)	\$0	\$0	\$0
Contributions in aid of construction (CIAC)	\$0	\$340,000	(\$2,742)	\$3,173	\$12,128	\$35,705	\$34,075	\$50,872	\$56,030	\$75,442	\$52,491	\$40,000	\$30,000	\$10,000
Total Other Property and Investments	\$0	\$0	\$264	\$2,201	(\$1,742)	\$0	\$0	\$0	\$0	\$0	(\$11,115)	\$0	\$0	\$0
Materials & Supplies - Electric and Other	\$0	\$0	(\$9,669)	(\$19,383)	\$149	(\$81)	(\$36,153)	\$8,074	\$9,126	(\$21,022)	\$632	\$0	\$0	\$0
Notes Receivable (Net)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
CASH FROM INVESTMENT ACTIVITIES	\$0	(\$719,860)	(\$45,466)	\$31,540	(\$55,730)	(\$70,208)	(\$72,668)	(\$214,701)	(\$49,523)	\$186,715	(\$81,923)	(\$65,611)	(\$75,611)	(\$95,611)
FINANCING ACTIVITIES														
Margins & Equities	\$0	(\$300,000)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	(\$328,553)
LT Debt - Additional Debt	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
LT Debt - Debt Service Payment	\$0	(\$125,567)	\$0	\$0	(\$30,678)	\$0	\$0	(\$31,149)	\$0	\$0	(\$31,627)	\$0	\$0	(\$32,113)
LT Debt - Other	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total LT Debt	\$0	(\$125,567)	\$0	\$0	(\$30,678)	\$0	\$0	(\$31,149)	\$0	\$0	(\$31,627)	\$0	\$0	(\$32,113)
LT Debt - Payments Unapplied	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
LT Debt - Current maturities	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Consumer Membership	\$0	\$0	\$5	(\$30)	\$5	\$30	\$30	\$40	\$5	\$80	\$15	\$0	\$0	\$0
Consumers Deposits	\$0	\$0	\$1,100	(\$2,450)	\$500	(\$150)	\$2,050	\$1,650	\$355	\$1,500	\$200	\$0	\$0	\$0
CASH FROM FINANCING ACTIVITIES	\$0	(\$425,567)	\$1,105	(\$2,481)	(\$30,173)	(\$120)	\$2,080	(\$29,459)	\$360	\$1,580	(\$31,412)	\$0	\$0	(\$360,666)
CASH FROM ALL ACTIVITIES	\$0	(\$118,953)	\$21,260	\$275,801	(\$27,427)	\$28,560	\$5,508	(\$54,189)	(\$85,092)	\$16,935	(\$57,689)	(\$21,330)	\$50,753	(\$175,281)
TOTAL CASH BEGINNING OF PERIOD	\$570,393	\$650,516	\$650,516	\$671,776	\$947,577	\$920,150	\$948,711	\$954,219	\$900,030	\$814,938	\$831,873	\$774,184	\$752,854	\$803,607
TOTAL CASH END OF PERIOD	\$570,393	\$531,563	\$671,776	\$947,577	\$920,150	\$948,711	\$954,219	\$900,030	\$814,938	\$831,873	\$774,184	\$752,854	\$803,607	\$628,325

General Manager’s Report to the Board – October 2019

General Discussion:

- Staff has started planning the 2020 OCEC Annual meeting for this coming April. For the program, I plan to continue discussion of the OCEC Fire Risk Mitigation plan. As a gift, we plan to give out a LED Lightbulb package similar to what we gave out two years ago. More discussion on this later.
- You may have noticed a larger than expected per unit energy expense for September. This amount was 20% higher than August 2019 and 6.6% higher than September of 2018. Based on the lower per unit costs in August 2019 and September 2018, the increased costs are approximately \$31,000 and \$12,000 respectively. PNGC has provided the following reason for this increase below:

The majority of the increase in the OCEC September bill was due to the demand charge. The end of September got really cold, really fast and the OCEC peak (CSP) hit on 9/30 during that cold snap. Unfortunately, when a month only has a day or two of cold temperatures, while the rest of the month is moderate-to warm, you won’t have the sustained usage during the month to offset the high CSP. Below is a comparison of the 2 months billing determinant which illustrates this “peaky” occurrence.

September Demand Billing Determinant:

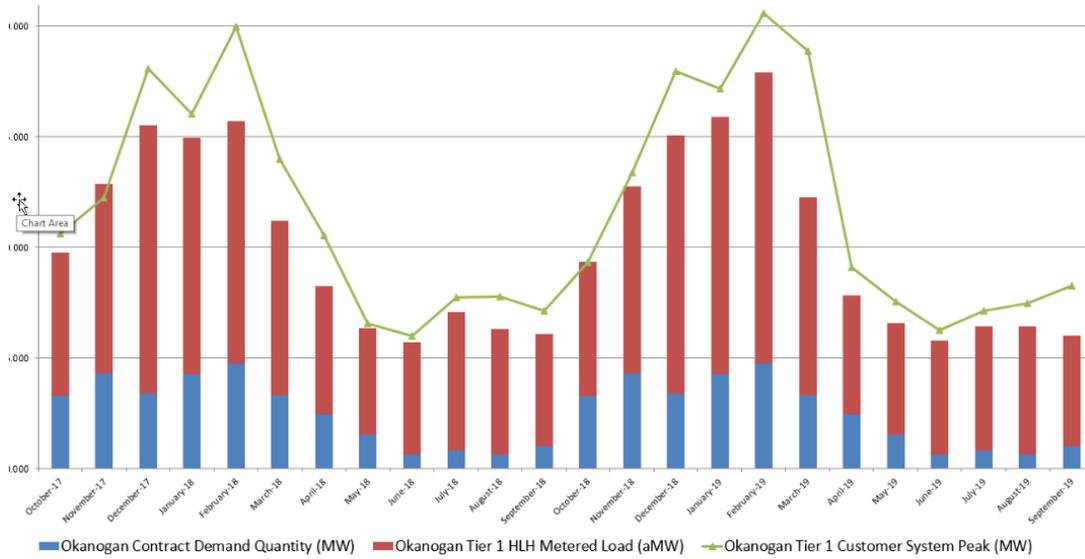
	Demand
Tier 1 Resource	8.273
Less: Tier 1 HLH Metered Load	5.000
Less: Contract Demand Quantity	1.010
Equals: Demand Billing Units	2.263

August Demand Billing Determinant:

	Demand
Tier 1 Resource	7.473
Less: Tier 1 HLH Metered Load	5.789
Less: Contract Demand Quantity	0.631
Equals: Demand Billing Units	1.053

Also, the demand chart below is a nice visual of this as well. Had the month been a little more cold in general, your red bar (aMW HLH) in Sept-19 would be higher and would reduce your charge (difference between green dot and the cumulative stacked bars).

Okanogan County Electric Cooperative, Inc.



Finally, the below chart shows that the temperature dropped at the end of the month.

SEPTEMBER 2019						
Sun	Mon	Tue	Wed	Thu	Fri	Sat
1 Actual Temp 90°/62° Hist. Avg. 84°/54°	2 Actual Temp 89°/61° Hist. Avg. 84°/54°	3 Actual Temp 91°/60° Hist. Avg. 83°/53°	4 Actual Temp 88°/59° Hist. Avg. 83°/53°	5 Actual Temp 90°/59° Hist. Avg. 83°/53°	6 Actual Temp 87°/66° Hist. Avg. 82°/53°	7 Actual Temp 87°/59° Hist. Avg. 82°/52°
8 Actual Temp 72°/60° Hist. Avg. 81°/52°	9 Actual Temp 73°/56° Hist. Avg. 81°/52°	10 Actual Temp 71°/55° Hist. Avg. 81°/51°	11 Actual Temp 77°/52° Hist. Avg. 80°/51°	12 Actual Temp 81°/53° Hist. Avg. 80°/51°	13 Actual Temp 76°/56° Hist. Avg. 79°/50°	14 Actual Temp 71°/58° Hist. Avg. 79°/50°
15 Actual Temp 63°/57° Hist. Avg. 79°/50°	16 Actual Temp 67°/53° Hist. Avg. 78°/49°	17 Actual Temp 62°/47° Hist. Avg. 78°/49°	18 Actual Temp 64°/52° Hist. Avg. 77°/49°	19 Actual Temp 74°/49° Hist. Avg. 77°/48°	20 Actual Temp 76°/57° Hist. Avg. 76°/48°	21 Actual Temp 78°/51° Hist. Avg. 76°/48°
22 Actual Temp 70°/53° Hist. Avg. 75°/47°	23 Actual Temp 67°/52° Hist. Avg. 74°/47°	24 Actual Temp 76°/53° Hist. Avg. 74°/46°	25 Actual Temp 74°/52° Hist. Avg. 73°/46°	26 Actual Temp 73°/52° Hist. Avg. 73°/46°	27 Actual Temp 64°/44° Hist. Avg. 72°/45°	28 Actual Temp 48°/41° Hist. Avg. 72°/45°
29 Actual Temp 46°/39° Hist. Avg.	30 Actual Temp 54°/40° Hist. Avg.	10/1 Actual Temp 61°/41° Hist. Avg.	10/2 Actual Temp 61°/37° Hist. Avg.	10/3 Actual Temp 62°/44° Hist. Avg.	10/4 Actual Temp 61°/43° Hist. Avg.	10/5 Actual Temp 67°/48° Hist. Avg.

Financial Discussion

- Capital expenditures continue to track closely to budgeted amounts. We are current on member requested construction though there are a few projects that, if they finish, will require OCEC construction.
- YTD September 2019 results for the O&M budget show an overage of \$91k or 4.8%.
- The equity ratio in September 2019 is 70.6%. The equity ratio in September 2018 was 68.6%.

OCEC
Equity Management Proposal
October 10, 2019

Recommendation Summary

Target capital credit payouts and other financial drivers at a rate that we anticipate will slow and then begin to reverse the recent rise of the equity ratio. Specifically:

- Pay out capital credits each year equal to 1/20 (5%) of all outstanding capital credits due to patronage. (Patronage capital is the capital contributed by the members as opposed to the entire amount of capital on the books.) The 2019 payout will be approximately \$350,000, with gradually increasing amounts over the next few years.
- Borrow as necessary to maintain cash target (one month's expenses, \$450,000).
- Keep rates at a level that produces a lower TIER ratio than has been customary in recent years. Specifically target for a TIER of between 2.4 and 3.0.

Modify management goal #3.

Policy Considerations

Equity ratio: Should be high enough to minimize interest expense and provide ample borrowing capacity, but not so high as to keep members from recovering their share of past margins within a reasonable time. Over 40% is financially healthy. Somewhere between 60% and 70% is probably optimal. Allowing the ratio to increase regularly implies that current members are paying more than their costs of service.

Capital credit payout amounts: Regular payments without too much year-to-year variation. Avoid retaining any patronage capital more than 20 years old.

Cash reserves: Maintain cash on hand equal to one month's average expenditures, \$450,000.

New debt: Borrow as necessary to maintain desired cash reserves.

Net margins: Sufficient to meet debt covenants based on TIER and MDSC.

Rates: Set rates in order to earn desired net margins, avoiding large increases from one year to the next.

Motion (supported by the Finance Committee and Management)

I move that:

1. OCEC policy is to pay out capital credits annually equal to 5% of total patronage capital outstanding.
2. OCEC will borrow funds from CFC when necessary to maintain cash reserves close to \$450,000.
3. The General Manager's Goal #4 is amended to read: "4. (30%) Develop and implement a plan to manage equity, debt, and capital credit payouts over the next ten years."

Background: Assets, Equity, and the Equity Ratio

A business needs sufficient assets to accomplish its objectives. For OCEC those assets include poles, lines, and transformers; trucks and repair equipment; inventories and construction work in process; office land, building, furniture, and equipment; cash and receivables; and various investments like our equity in OCEI and in PNGC. We would do our members a disservice by purchasing or accumulating more assets than we prudently need to carry out our business, but also a disservice if our provision of electricity and related service were to suffer because of insufficient assets.

Assets must be financed by some combination of debt and equity. In accounting terms that is why the balance sheet must balance, with assets exactly equal to liabilities plus equity. Liabilities and equity are both sources of funds; the difference is that liabilities must be paid back according to the contract or implied terms on which they were supplied, while equities represent a residual claim with no specific required payback schedule. Liabilities include long-term debt, but also accounts payable and other accrued liabilities. Equity includes memberships and patronage capital, the accumulated net margins that have not yet been returned to members. Of these, only long-term debt and patronage capital are practical targets for managing the equity ratio.

The board set a target equity ratio (total equity to total assets) of 60% when OCEC's actual ratio was below that level. At that time 60% seemed like a healthy and achievable target. In recent years OCEC's equity ratio (total equity to total assets) has been rising at around 3% per year and is now close to 70%.

The optimal balance between debt and equity is difficult to determine precisely. The two must add up to the same value as total assets, but there is no clear answer to how much should be equity and how much should be debt. Both impose costs on the co-op and its members. The costs of debt are (1) interest expense, and (2) reduced ability to borrow additional funds when the debt ratio (the inverse of the equity ratio) is too high. The costs of patronage capital accrue to the members as foregone interest income on what are essentially forced, long-term, zero-interest loans by them to the co-op.

OCEC's equity ratio is significantly higher than most co-ops. (At the end of 2018 OCEC's equity ratio, KRTA #16, was 69.55%, versus a US co-op median of 45.62% and a Washington co-op median of 53.28%). Members could legitimately complain that we are holding their patronage capital longer than necessary. We could point out in response that there are costs to the membership from both equity and debt, and the Co-op is not required to pay out capital credits on any specific schedule. Nevertheless, we feel it is wise not to let the equity ratio rise further.

Another issue besides the value of the equity ratio is its rate of change. If we let the equity ratio climb, we are in effect causing current members to pay more than necessary for the cost of service. If our debt levels were high (low equity ratio) this would be justified as we worked toward a healthier debt level. But with our current equity ratio as high as it is, the finance committee believes it would be fairer to members to stabilize the ratio rather than let it continue to rise.

If we were to reduce the equity ratio to 60% rapidly, we would need to make unusually large capital credit payouts for one or a few years. Undoubtedly some members would begin to expect continuation

of capital credit payoffs at that rate, and be upset when payoffs returned to more sustainable levels. If we accelerate capital credit payoffs by just enough to maintain the current equity ratio, we would avoid the future reduction that would occur from completion of a paydown.

By keeping capital credit payouts relatively stable, but at a higher rate than in recent years, we can slow and even reverse the recent rise in the equity ratio.

Financial Projections

The attached spreadsheet ("OCEC Financial Projections 191008") shows projected amounts for selected accounts and ratios, including capital credit payouts, equity ratio, and TIER. These projections are not expected to be precise; rather they show an approximate likely scenario. The projections are based on the output of the CFC Compass planning model using best estimates as of October 8, 2019. Further refinement of the model will produce updated numbers.

Assumptions behind the projections:

This is the output of the first run of the CFC Compass model. What has not been modeled yet is the annual equity contributions from the propane which will raise the equity ratio. Also not modelled is the A/R due from propane. David is taking a training course on the Compass Financial Model in November and these items will be addressed then. Also, CFC will go over the model and results when we are finished to make sure we didn't miss anything.

Assumptions:

- Rates increase of 3 to 7% in 2022 (3% for G1-4, 5% for single-phase irrigation, and 7% for 3-phase irrigation) and 2% in each of 2024, 2026, and 2028.
- Expenses, including power, increase 3% per year, except that taxes increase 1% per year.
- Capital credits are retired at 3.5% of total equity (approximately 5% of patronage capital).
- Capital expenses in 2020 and 2021 will be higher than normal due to completion of the Mazama project and headquarters modifications.
- Year-end cash is in the \$400k to \$500k range.
- Consumer growth is assumed to be 1.31 % for 2021 and 2022 and decrease to .94% after this. Consumer growth for the last year is 1.46%.

OCEC Financial Projections from CFC Compass Model, Oct 8, 2019

	2016	2017	2018	2019	2020	2021	2022
Net Margins	745,783	888,186	834,472	514,483	493,245	468,877	580,972
Capital Credit Payouts	210,579	166,584	210,307	328,115	334,638	340,189	344,693
New Borrowing	-	-	-		300,000	850,000	400,000
Cumulative Borrowing	3,508,912	3,367,225	3,241,658	3,107,063	3,255,142	3,934,867	4,148,717
Cash Year End	580,809	570,393	650,516	500,628	454,393	477,697	411,433
Assets Year End	12,505,658	13,176,371	13,478,994	13,520,366	13,908,206	14,734,973	15,200,978
Equity Year End	8,028,942	8,750,544	9,374,709	9,561,077	9,719,684	9,848,373	10,084,652
Equity Ratio	64.20%	66.41%	69.55%	70.72%	69.88%	66.84%	66.34%
TIER	4.42	5.24	5.14	3.65	3.54	3.22	3.51
MDSC	2.57	2.91	2.77	3.43	3.27	2.93	2.98

	2023	2024	2025	2026	2027	2028
Net Margins	499,530	532,747	448,072	543,331	438,450	518,823
Capital Credit Payouts	352,963	358,093	364,206	367,141	373,308	375,588
New Borrowing	400,000	300,000	500,000	400,000	600,000	500,000
Cumulative Borrowing	4,347,295	4,427,850	4,689,493	4,830,814	5,193,869	5,447,447
Cash Year End	471,447	427,418	459,315	442,330	468,634	471,748
Assets Year End	15,561,395	15,834,627	16,201,548	16,539,380	16,945,844	17,352,135
Equity Year End	10,231,219	10,405,873	10,489,739	10,665,929	10,731,071	10,874,307
Equity Ratio	65.75%	65.72%	64.75%	64.49%	63.33%	62.67%
TIER	3.06	3.13	2.72	2.98	2.51	2.67
MDSC	2.63	2.58	2.27	2.33	2	2.17