BOARD MEETING

January 25, 2011

Present: Don Hover, Jeremy "Nim" Titcomb, Dick Garing, Ken Westman, Richard Erickson, Frank Kline, Ron Perrow, Pat Leigh and Paul Taylor.

Attending: Ray Ellis General Manager; Lynn Northcott, Office Manager; Teri Parker, Office Staff; Doug Graybeal, Staff;

Guest: Gil Sparks, Ogden Murphy Wallace PLLC, Okanogan County Electric Cooperative, Inc. (OCEC) Attorney.

Members in Attendance: Kent Hitch, Ray Peterson, Deborah Helleson, Matt Firth, Jim Brennan, Pete De Long, Mike Shirley, Duncan Bronson, Joe Callier, Betsy Cushman and Charley Ryan.

PRELIMINARY

1. Meeting Called to Order

   President Don Hover called the meeting of the Board of Directors of Okanogan County Electric Cooperative, Inc. (OCEC) to order at 7:00 pm.

2. Determination of quorum

3. Approval of Agenda

   Ray requested to add number 5; Revolving Loan Fund, Twisp PDA, under Executive Session, number 1; Labor negotiation and number 2; member issue.

   Ron moved to accept the agenda as amended. Nim second, motion carried.

4. APPROVAL OF CONSENT AGENDA ITEMS

   1. Minutes from December 28, 2010
   2. New members
   3. December unaudited 2010 – Form 7

Ron asked for clarification on line item 21, accounts receivable-Net other; these are revolving loan funds.

4. Statement of Operations
5. Status of Funds

Paul asked for clarification on Propane Paybacks. Don explained that is Okanogan County Energy (OCEI) wages that are paid back to OCEC.

Ron asked for clarification on the beginning and ending cash balances for 2010. Ray explained there was $18,000 less revenue, power costs were up $82,000 and we collected $14,000 less aid to construction. He explained that some months will see a negative cash flow and some month's positive cash flow due to those factors.

6. Revolving Loan Fund
7. Power & Service Data
8. Outage Report

Nim moved to accept the consent agenda as presented. Ken second, motion carried.

5. MEETINGS ATTENDED

1. Pacific Northwest Generation Cooperative (PNGC) – PORTLAND OR – January 4th & 5th
2. Union Negotiations – Winthrop WA – January 6th & 7th – Ray, Don & Ron

6. MEETINGS TO ATTEND

1. PNGC – Portland OR – February 1st & 2nd – Ray
2. Union Negotiations – Winthrop WA – January 28th – Ray, Don & Ron
3. Union Negotiations – Winthrop WA – February 10th & 11th – Ray, Don & Ron

7. UPDATE ON OPERATIONS:

Ray reported that OCEC's safety instructor, Charley Jones, informed us of new crane training regulations required. Occupational Safety & Health Administrative (OSHA) is requiring anyone with a boom truck over 3,000 pounds be trained as a crane operator. This will be tremendous expense and time for OCEC to train a lineman for this little needed position. We will be looking to National Rural Electric Cooperative Association (NRECA) and Washington Rural Electric Cooperative Association (WRECA) to get an exemption for electric utility linemen from this requirement.

Ray moved on to Load Profile handouts showing peaks for the Winthrop Substation occur every day from 6 am to 10 am.

Paul requested more data showing peaks on the Mazama feeder, if possible and suggested a meeting between directors and staff to gain more knowledge of feeder demand loads. Ray will set up a meeting time.

ITEMS OF BUSINESS

1. PNGC Review – Ray

   Ray reported on the PNGC Risk Management Committee; generation and load for December was below what was forecasted. This means there was a surplus of energy on the market, however, the energy market is soft and there is no place to sell the excess.

   The Northwest River Forecast Center is predicting 103% of normal runoff for January through July 2011. In general this is good news but there is a possible impending degradation of market prices due to an overabundance of northwest energy; water and wind. Bonneville Power Agency (BPA) is working on a plan to curtail wind production during peak hydro production.

   Rate and finance committee reports a net income for December 2010 that is $200,000 over budget, year to date PNGC is $1.5 million dollars over budget. The surplus margin for PNGC is set at $3 million to cover expenses. OCEC renewed its 20 year contract with PNGC last year.

2. Set Annual Meeting Date

Ron moved to set the Annual meeting date for Monday, April 18, 2011 at 7 pm to be held at the Winthrop Barn. Dick second; motion carried.

3. Load Control Update

The engineering department put together a handout on Demand Response Evaluations for Board review. It was agreed by consensus to take home the report and discuss it at the February Board meeting.

4. Budget Review

Ray walked the Directors through the 2011 budget page by page and encouraged the board members to ask questions or make comments throughout the process.

Page 4; Operating Revenue and Cost of Power estimates for 2011 were discussed. Budget estimates were based on PNGC and BPA rate forecasts.

Page 10: Directors discussed number 5; administrative and general expense and conservation increase. This category includes special services such as cost of service analysis (COSA), rate surveys and other expenses not acquired in a normal year.

Page 11, Conservation Program; Paul suggested we cut back on some expenditures due to the Mazama feeder upgrade. He suggested removing the $75,000 approved last month for conservation for low-income weatherization.

A point of discussion was; could OCEC use the $28,000 from BPA's Conservation Rate Credit (CRC) program to fund conservation? There are strict requirements on how BPA allows that money to be used. If we don't use it correctly we will be required to pay it back to BPA on our power bill.

Other discussion centered around do we support conservation, will conservation help to keep us out of TIER 2 power rates from BPA and can we communicate and educate our members on the issues of conservation and load control?

It was agreed to let the budget item stand.

Page 12, Donations to organizations: OCEC allows for $3,300 for the benefits of valley children in the budget. Donations include Coats for Kids, M.V. Education Foundation for scholarships and Methow Arts Alliance for Missoula Children's Theater. Paul suggested it would be better to let ratepayers make their own donations.

After discussion it was agreed to let the budget item stand.

Page 13; Cost of Service Analysis (COSA).

Frank moved to ask Ray to commission a COSA through PNGC as soon as possible. Ken second.

Discussion; Paul would like to see a COSA using different methods of approach: Method 1, Minimum system approach; Method 2, Demand approach; Method 3, No intercept approach. Paul believes the main purpose of a COSA is to tell how much each rate class should pay in order to not be subsidized by another class. Ron supported this concept.

Discussion; how much it cost to request 3-method approaches in a COSA; there is a $35,000 line item in the 2011 budget. OCEC can get a free COSA from PNGC-objective and fair-with a determination of what would be best for OCEC. OCEC Directors will still need to apply the determination in a fair manner to all members.

Don asked for the motion to be read to determine if there was a cost included in the motion, there was not.

Frank amended the motion to ask Ray to commission a COSA through PNGC, at no cost, and to ask PNGC if it is possible to use more than just the minimum system approach. Ken second, motion carried.

Ron moved to remove the $35,000 line item for a COSA in 2011. Ken second.

Discussion: Frank suggested the board consider the possibility of later adding that same $35,000 back to the budget in 2011 under conservation.

Don called for a vote on the motion, carried.

Page 13 Communications: Paul stated concerns that this money would be used politically for the annual meeting elections. He was concerned over the newsletter sent to members last year around the election supporting the rate structure.

[Paul was referring to the letter from the Okanogan Electric Co-op Board of Directors sent to explain the recent change to the Co-op rate structure.]

Frank stated that OCEC represents our members and would trust a professional and our General Manager to educate our members and not run a campaign or promote an agenda. He feels it is important to begin educating our members on the issues surrounding the cooperative. Frank stated the newsletter last year was to lay out the rationale behind the rate structure and was in response to the criticism the board was under.

Ray commented the board approved funds to help him with membership communications. He stated that if the board does not have trust in him to be able to do the right thing and spend the money appropriately and not politicize OCEC "it is not my job to do that and I will not do that. These funds are to educate our members throughout the year through newsletters."

It was agreed to leave communication funds in the budget.

Page 18: Retirement of Patronage Capital.

Paul moved to reduce the equity payout from 5% to 2% which is the median average for other Co-ops. Pat second.

Points of discussion included how the percentage was decided, the reasons it is good promotion for the Cooperative to return capital credits to its members and

how it helps the board to communicate to members what it means to be part of a member owned cooperative.

Pat Leigh stated that the proposed budget shows the need to borrow $250,000 to cover the 2011 budget and that we have a history of increasing indebtedness each year for the past five years. As a result of Pat's concerns over the past five year's cash flow it ~~it~~ was decided to ask Dan Kessler from Cooperative Finance Corporation (CFC) to hold a session for Board education on the Key Ratio Trends Analysis (KRTA) and related finances of the Cooperative.

Don called for a vote on Paul's motion; 2 votes for (Pat and Paul) and 5 votes against. Ron abstained. Motion failed.

Ken moved to accept the 2011 budget as amended. Richard second, carried with 1 vote opposed. Pat asked to go on record as opposed.

5. Revolving Loan Fund (RLF) and Twisp Public Development Authority (PDA).

Lynn reported she met with representatives of the Twisp PDA regarding the $15,000.00 RLF Grant the board approved. The Twisp PDA is not able to sign the Deed of Trust making OCEC first in line in case of a default. They have come up with an alternative plan.

The PDA is proposing to purchase a five-year $15,000.00 CD from North Cascade National Bank (NCNB) with the Cooperative as the sole beneficiary, possibly with one of the directors as a signer on the CD or as a legal contact. At the maturity of the five-year CD the PDA will secure the $7,500.00 outstanding balance with another $7,500.00 CD with the same terms.

Ken moved to approve the new collateral agreement with Twisp PDA. Dick second, carried.

Meeting adjourned to executive session at 9:15 pm.

Executive session adjourned at 9:52 pm.

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Richard Erickson, Secretary