

EMPIRE ELECTRIC ASSOCIATION, INC  
MINUTES OF THE REGULAR MEETING  
OF THE BOARD OF DIRECTORS  
November 9, 2016

Special meeting of the board of directors of Empire Electric Association, Inc. was held Wednesday, November 9, 2016 with the following directors present: Bill Bauer, Jerry Fetterman, J. Kent Lindsay, John Porter, William Mollenkopf, Sue McWilliams, and David Sitton. Others present: General Manager Josh Dellinger, Operations Manager Ken Tarr, Corporate Operations Manager Mary Thiesing, Member Services Manager Bobbe Jones and Executive Secretary Denise Rosenbaugh.

President Bauer called the meeting to order at 3:10 p.m. The 2017 budget is the topic of discussion.

Thiesing reported on her recent discussion with the auditors regarding changes to generally accepted accounting principles (GAAP). A major change is the disallowance of including expenses in the extraordinary items category. We still have about \$900,000 left to depreciate for the metering system that is being replaced. We originally planned to include this expense as an extraordinary item. As such, it would not have affected our operating ratios and its effect on our overall ratios would have been offset by our capital credit payment from Tri-State. Thus, we would not have been in danger of missing our loan requirements. However, having to include this expense in the depreciation category will affect our operating ratios. The proposed budget including an increase in the PCA pass-through but not including any general rate increase results in an OTIER of 1.14, which is only slightly above the RUS requirement of 1.10 Both Dellinger and Thiesing would like to budget for a slightly higher OTIER in order to provide some room in case we encounter any unexpected expenses. Therefore, staff is proposing to increase the Grid Access Charge for the Residential rate class from \$30.73 to \$32.00, the General Service Single-Phase rate class from \$30.65 to \$32.00, and the Irrigation Single-Phase rate class from \$30.70 to \$33.00. These increases would result in a budgeted OTIER of 1.27 and would increase our projected operating margins from about \$250,000 to about \$500,000. Thiesing also noted that these increases would align with what our most recent cost of service study suggests.

Mollenkopf noted that the suggested charges are whole numbers and he asked what the actual numbers in the cost of service study were. Thiesing responded that the numbers coming from the study depend on what rate of return is desired. She lowered the desired rates of return in the study to arrive at these whole numbers. The suggested charges would allow us to earn a 3.78% rate of return on Residential, 3.99% on General Service Single-Phase, and 1.53% on Irrigation Single-Phase. She also noted that our system-wide rate of return is about 6.1%, which is lower than the 10% that typical IOUs earn..

Dellinger reviewed the financial ratios that were included in the emailed information sent to the board. Sitton voiced his opposition to raising rates based on an accounting adjustment. He also mentioned that he did not believe that planning for additional revenue to mitigate potential major events should drive rate increases. Thiesing replied that she would have recommended the proposed increases even if the accounting rules had not changed so that we would be more aligned with our cost of service study. Mollenkopf asked what the average increase would be for a residential member. He noted that the Tri-State increase is 4.23%. Thiesing calculated that a member who uses 620 kWh would see an increase from \$93.57 to \$97.23. That calculation includes the Tri-State increase and the proposed Empire increase.

There was discussion about depreciating our new metering system in the future. RUS says such equipment is to be depreciated over 35 years, or you can use the manufacturer's data. Landis and Gyr has recommended 20 years, so that is the number we will use. Several of the board noted that 20 years is likely still too long.

Thiesing also mentioned that we updated our tax district information so that the E&O center is only in the county district.

Question was asked about a \$10,000 shed at the headquarters and Thiesing replied it was for lawnmowers, snow blower, etc. since we will be losing the storage should the warehouse be sold. Discussion held regarding the projector for board room and whether to go with a TV instead. Dellinger responded that both options will be investigated. There were additional questions and discussions about our give-aways, whether we should remain members of Mountain States Legal Foundation, the proposed Barracuda web filter, the proposed increase to the tree trimming budget, the proposed joint use audit, and the proposed video messaging. The board instructed Dellinger to include Mountain States Legal Foundation updates in the board packet so they can be better informed of what the foundation is doing. Jones explained the video messaging and the board noted that we need to somehow measure and evaluate its effectiveness.. Discussion also held on labor, memberships and donations. Consensus was to take American Cancer Society donation and move it to the Southwest Memorial Hospital Foundation. No other changes to the budget were suggested.

The board asked Thiesing to put together scenarios that would show how a member's bill would be affected by the new rates at different usage levels. She will get such scenarios to the board prior to the upcoming board meeting.

Motion by Sitton to go into executive session for personnel issue. Motion seconded by Mollenkopf and carried. The board went into executive session at 5:00 p.m. and came out at 5:10 p.m.

Meeting was adjourned at 5:10 p.m.

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Bill Bauer, President

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Jerry Fetterman, Secretary/Treasurer