

## *FLATHEAD ELECTRIC COOPERATIVE, INC.*

*KALISPELL, MONTANA*

*December 16, 2011*

The regular meeting of the Board of Trustees of Flathead Electric Cooperative, Inc. was held at the office of the Cooperative at 2510 US HWY 2 East, Kalispell, Montana on Friday, December 16, 2011. The meeting was called to order at 9:00 a.m. by President George Taylor.

Other officers and trustees in attendance were: Chris Byrd, Vice-President, Duane Braaten, Secretary/Treasurer; Doug Grob, Earl Messick, Emery Smith, Jay Downen, Alan Ruby and Paul Holland. Also in attendance were: Kenneth A. Sugden, General Manager; Mark Johnson, Assistant General Manager; Max Davis, Legal Counsel; Stephanie Wallace, Cheryl Talley, John Goroski, Dave Biggar, Tod Young, Jason Williams, Wendy Ostrom Price, Carole Phillips, EJ Lundgren and Joann Kizer.

It was moved by Earl Messick and seconded that the November 29, 2011 minutes be approved as presented. The motion was adopted.

It was moved and seconded that the agenda as amended be approved. The motion was adopted.

Tod Young reviewed the financial statements for the period ending November 30, 2011. Net margins exceeded budget by \$3.9 million. Revenues were over budget 3.5%, cost of power was over budget 1% and variable expenses were under budget 7.5%. He reviewed two "Forecast Year End" documents, one with and one without deferred revenue. There was discussion regarding the deferred revenue and the impact to potential 2012 rate increases.

Tod also reviewed the Energy Efficiency Self-Funding programs for the period October-December 2011 and reminded the Board that a decision on self-funding will need to be made at the January 2012 Finance & Audit Committee meeting.

It was moved by Duane Braaten and seconded to file for audit the financial statements for the month ending November 30, 2011. The motion was adopted.

In response to the Board's request, Tod presented a revised format of the Finance and Audit Committee meetings and the presentation of the Financial Statements during Board meetings. He proposed that separate F&A Committee meetings be scheduled as needed rather than as pre-scheduled and suggested the following list of subjects and related months are known items that would warrant separate F&A Committee meetings:

- 10-year Financial Forecast - January
- Cost of Service Analysis, Rate Proposal, Financial Audit Report - February
- Construction Work Plan - Varies
- Budget Workshop - A separate meeting first part of November

After discussion by the Board, it was agreed to have separate Finance & Audit Committee meetings during the months of January and February and the months when the Construction Work Plan and Budget Workshop are presented, otherwise the Finance & Audit Committee meetings will be combined with Board meetings on all other months unless there is a special request or inquiry. If in the future the Board determines that combining the meetings isn't feasible they will revert back to having separate F&A Committee meetings and Board meetings.

Ken Sugden reported on the Stoltze Biomass project and negotiations between Stoltze and FEC for a Power Purchase Agreement which he was hoping to present at this meeting. However, attorneys for both parties are still in the process of finalizing the agreement. In order for the project to continue, Stoltze was taking the position that a Power Purchase Agreement has to be executed by the end of the year. After considerable discussion, it was the Board's unanimous consensus as long as the agreement includes a firm block of power, a maximum of \$0.09 per kwh, a 3% annual cost adjustment, 1% or less impact on FEC's retail rates and the gradual return to FEC of 100% of the RECs by the 16<sup>th</sup> year that management should continue to move forward with the agreement and once the Power Purchase Agreement is ready for execution, a special

Board meeting will be held telephonically. All Board members and management agreed to be available for the teleconference board meeting prior to the end of the year.

Chuck Roady and Greg Johnson, President of Stoltze Land & Lumber Company, came into the meeting and reiterated that for the project to continue, a Power Purchase Agreement has to be executed by the end of the year. They also stated they are working with BPA regarding a Balancing Authority Area Services Agreement. The Board explained in order to meet Stoltze's deadline, the finalized agreement has to be delivered to them for review prior to December 27<sup>th</sup> so a special teleconference board meeting can be held either December 27<sup>th</sup> or 28<sup>th</sup> for approval of the Power Purchase Agreement.

Ken Sugden reported to the Board that Montana Chip, LLC wants to exercise their option to purchase Lot 10 of Evergreen Rail Industrial Center. He stated they have agreed to purchase the property at the appraised price of \$156,000.00.

It was moved by Chris Byrd to authorize Ken Sugden to sign and execute all closing documents for the sale of Lot 10 of Evergreen Industrial Rail Center at the appraised price of \$156,000.00. The motion was seconded by Paul Holland and after being put to a vote was adopted.

There was discussion regarding the appointment of a Voting Delegate and Alternate Delegate to the NRECA Annual Meeting. It was moved, seconded and carried that Emery Smith be appointed Voting Delegate and Paul Holland as Alternate.

Doug reported to the Board that Mark Johnson has been asked to be acting Manager of WMG&T until a new manager has been hired. Langley and Associates has been retained to aid in the search for a new manager with hopes of hiring the new manager by next May or June. WMG&T offered to pay Mark to attend the Portland meetings, but Ken advised as Mark is already going on behalf of FEC, FEC would pay the cost. However if there are meetings Mark is asked to attend that he is not already attending on behalf of FEC, then FEC will charge WMG&T for the costs associated with those meetings. After discussion, the Board agreed it would benefit WMG&T for Mark to be its acting Manager.

Mark thanked the Board for their vote of confidence and reported that he thinks this is a great opportunity and understands the responsibility to FEC comes first and believes he will have the time to do both jobs.

In his Manager's report, Ken reported that he and Tod Young met with Ron Trippett, Vice-President of the Statewide Landlord Association, and explained FEC's Landlord Agreement policy and process. Ron appreciated the explanation and asked if staff would prepare a synopsis of the policy and procedure so he could put it in a newsletter that goes to landlords. Ken and Tod also agreed to attend a Landlord Association meeting and answer any questions they may have.

There was discussion regarding an article in Rural Montana magazine that upset a member. The member has been speaking with Mike Radel and is satisfied with Mike's response.

Ken talked about the Portland meetings and asked the Board if there is interest in purchasing a block of power, which would match BPA's Vintage Rate product, from Grant PUD. Doing so would establish a relationship with the PUD who could be easier to work with than BPA. It was the Board's consensus for Ken to continue to pursue that purchase.

John Goroski reported all TWACs meters have been installed and seem to be working well. He also reported on a couple members who did not want TWACs meters installed.

Jason Williams answered questions from the Board and confirmed FEC's Service Territory Map has been corrected to accurately show FEC's service territory. Jason and EJ will make sure the individual Trustee District Maps have been updated on FEC's website.

Cheryl Talley reported BPA wants to discontinue the incentives for the open loop geothermal heat pumps. She also reported drilling in Hot Springs started today.

Stephanie Wallace handed out thank you notes from members and answered questions from the Board. She reported the meeting with Dave Skinner of Flathead Beacon went well.

Dave Biggar answered questions from the Board and reported on the new generator FEC is installing at the Cooke City property. He is hoping other members in Cooke City show an interest in this type of generator for their needs.

Attorney Max Davis reported on the Sorenson law suit and Jim Sutherland's deposition.

Earl Messick thanked the Department Managers for their very informative board reports.

The Board recessed for lunch at 12:00 noon and reconvened at 1:40 p.m.

Doug Grob reported on the Portland meetings held December 7~8th.

Alan Ruby reported on the MECA Winter meeting held in Great Falls November 30~December 1<sup>st</sup> and noted the 2012 budget was passed. He also reported there will be a Legislative Energy and Telecommunications Interim Committee meeting to be held in Helena on January 13, 2012 from 9:00 a.m. to noon.

Alan Ruby reported on the Midwest Electric Association Annual meeting held in Denver December 5~8, which he attended on behalf of MECA. He noted as of January 1, 2021 WAPA will sign 30 year contracts.


Doug reported that Northwest Gas Association will be holding a meeting on January 25, 2012 in downtown Portland. If anyone is interested, they are to contact Doug.

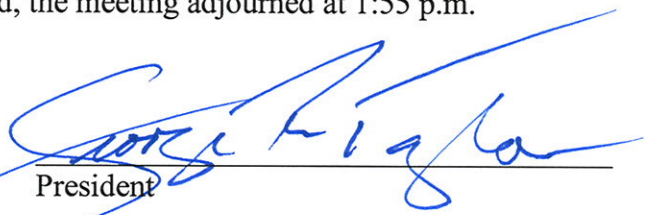
Doug Grob plans on attending the Portland meetings January 4~6, 2012 and noted he will no longer be able to attend the NRECA Annual Meeting in San Diego, California March 5~7<sup>th</sup>, 2012.

It was moved seconded and carried to approve all travel.

With no further business to come before the Board, the meeting adjourned at 1:55 p.m.

ACCEPTED BY:

  
Secretary

  
President

DATE: 1-31-12

**FLATHEAD ELECTRIC COOPERATIVE, INC.**

**KALISPELL, MONTANA**

**December 27, 2011**

A special telephonic meeting of the Board of Trustees of Flathead Electric Cooperative, Inc. was held on Tuesday, December 27, 2011 for the purpose of discussing a proposed Power Purchase Agreement with F.H. Stoltze Land & Lumber Company, Inc. The meeting was called to order at 2:00 p.m. by President George Taylor.

Other officers and trustees in attendance were: Chris Byrd, Vice-President; Duane Braaten, Secretary/Treasurer; Doug Grob, Earl Messick, Emery Smith, Alan Ruby and Paul Holland. Jay Downen was absent. Also in attendance were: Kenneth A. Sugden, General Manager; Mark Johnson, Assistant General Manager; Max Davis, Legal Counsel; Ray Kindley, Legal Counsel and Joann Kizer.

Mark Johnson reviewed the status of the proposed agreement and highlighted the following issues:

- After several discussions, it appears Stoltze still doesn't appreciate the limitations of FEC's contract with BPA, including the restrictions that the contract imposes on FEC's ability to receive power from outside generation resources.
- Article 3 regarding replacement REC's and replacement energy.
- Article 6 and the Commercial Operation Date.
- Termination Rights and FEC's right to terminate for non-performance.

Ray Kindley then presented an overview of the agreement on a legal basis and explained why there are certain provisions in the agreement and how they address FEC and Stoltze's issues and concerns. Ray explained in detail the following:

- Article 3 - Purchase and Sale of Energy, Environmental Attributes, and Renewable Energy Credits
- Article 6 - Facilities Construction, Operation and Maintenance
- Article 10 - Default and Remedies
- Exhibit H - Renewable Energy Credits

Ray also reviewed in detail the project's proposed timeline.

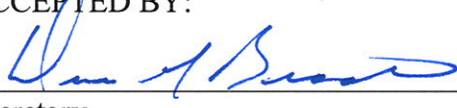
There was considerable discussion regarding Section 10.3.c. It was agreed by the Board that this paragraph has to remain in the agreement.

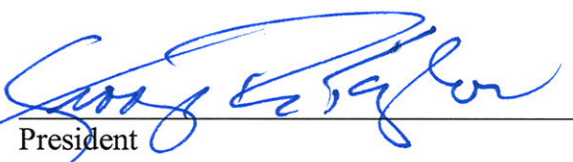
There was discussion by the Board regarding Exhibit E - Insurance Requirements.

It was moved by George Taylor that the President, General Manager and/or Assistant General Manager be authorized to execute a Power Purchase Agreement with Stoltze substantially in the form of the draft marked "Draft 12-26-2011". The motion was seconded and after being put to a vote was adopted by a vote of 6 in favor, 1 against and 1 abstaining.

With no further business to come before the Board, the meeting adjourned at 4:15 p.m.

ACCEPTED BY:

  
Secretary

  
President

DATE: 1-31-12