

VALLEY ELECTRIC ASSOCIATION, INC.

**REGULAR MEETING
OF THE
BOARD OF DIRECTORS**

A regular meeting of the Board of Directors of Valley Electric Association, Inc. (“VEA”) was held on Thursday, April 25, 2019, beginning at approximately 8:30 a.m., at VEA’s headquarters in Pahrump, Nevada.

Mr. Derschan called the roll of Directors present: Ken Derschan, President; Rick Johnson, Vice President; David Dawson, Treasurer; Dave Hall, Secretary; and Pete Gazsy, Assistant Secretary. Kathy Keyes, Director-Elect, District 4, was also present.

Also present were: Richard Peck, Chief Executive Officer (“CEO”); Steve Morrison, Chief Financial Officer (“CFO”); Bart Thurgood, Chief People Strategist; Nate Johnson, Executive Vice President (“EVP”) of Broadband; Mike Hengel, EVP of Communications & Regulatory Affairs; Doug Maughan, Manager of Power Supply; Ms. Carlson, Executive Assistant; James Andreason, manager of operations; Candace Perkins, manager of community relations; and Josh Weber and Robert Sweetin, Davison Van Cleve, PC, General Counsel. Also present were members: Frank Bonesteel, John Whitney, and Suzanne Schneider.

Mr. Derschan called the meeting to order at 8:47 a.m.

1. Approval of the Agenda. Mr. Peck requested several changes to the Agenda, including moving item 7.a up, to be considered immediately following item 1. He also asked to remove item 7.f and add a new 7.i to consider a CFC request for support. He also noted that an additional item regarding the mortgage to CFC and CoBank would be added to executive session. Mr. Dawson **moved** to approve the Agenda as amended. The motion was **seconded** by Mr. Gazsy, and it was **approved** unanimously.
2. Mr. Derschan noted that with Mr. Maurer’s retirement due to a sickness in the family, it would be appropriate for the Board to appoint Ms. Keyes to her Board seat approximately a month early. It was **moved** and **seconded** to appoint Ms. Keyes to serve the remaining weeks of Mr. Maurer’s term, after which she would begin to serve the term for which she had been duly elected. The motion was **approved** unanimously.
3. Member Comment. Mr. Whitney read a prepared statement stating that he blamed the Board for what he considered to be bad decisions made by Mr. Tom Husted. He had additional statements regarding the ongoing Members for Change situation and made specific requests to the Board, including asking for resignations of all Board Members.
4. Director Comment. Ms. Keyes commented on the orientation presentation and the NRECA orientation that she was able to attend in early April, including education regarding

fiduciary duties of care and loyalty, and education regarding bylaws, organization, finance, and cooperative processes.

Mr. Dawson commended Ms. Keyes and commented on the benefits of NRECA training and interaction with seasoned directors and resources within the cooperative world.

5. Approval of the Minutes. Mr. Dawson **moved** to approve the minutes of the March 28, 2019, Board Meeting. The motion was **seconded** by Mr. Gazsy, and it was **approved** unanimously.
6. Financials. Mr. Morrison presented the March financials. Mr. Morrison presented the year-over-year trend analysis of monthly results against 2017 and 2018. Mr. Morrison presented the unaudited March statements, and he reported on the cost of power and transmission expenses. He also noted that the CAISO meter error still has some effects, but much of this issue has already been resolved. Mr. Morrison presented the consolidated balance sheet. Mr. Morrison also presented details regarding cost and revenue including sources and uses of cash. The Board asked a number of questions regarding uses of cash.

Mr. Morrison also presented the VETA balance sheet and financials. The Board and Mr. Peck asked several questions.

Mr. Dawson **moved** to accept the unaudited financials for filing. Mr. Hall **seconded** the motion. The motion was **approved** unanimously.

7. Unfinished Business.
 - a. WDAT Revisions. This item was tabled for later discussion.
 - b. Corp. Policy #133. Mr. Peck introduced the system improvement and line extension revisions that are being considered, which will provide clear responsibility for approving system improvements. Mr. Derschan and Mr. Hall commented on the policy and potential roll-out. Mr. Peck noted that the new policy would be put in place effective June 1, 2019. The Board continued the discussion.

Mr. Dawson **moved** to approve Corp. Policy 133. Mr. Gazsy **seconded** the motion. The motion was **approved** unanimously.

The Board continued the discussion with further questions about idle service policies.

- c. Board Policy 113. Mr. Peck noted that this policy proposal and any statements about it were not intended to disparage the program; rather, Mr. Peck thanked the ambassadors for their hard work. He noted, however, that there is no policy at the cooperative about the ambassador program. Mr. Peck explained how the new committee structure, replacing the ambassador program, would integrate member participation. Mr. Peck explained the potential benefits of the program. Mr. Weber

commented on the importance of keeping fiduciary duties of the Board distinct from the advisory function of the committees.

Mr. Whitney and Ms. Schneider left the meeting at approximately 9:45 a.m.

The Directors continued asking questions of Mr. Peck. There was extensive conversation surrounding the proposal.

The Board recognized Mr. Bonesteel and asked for his input. Mr. Bonesteel noted that the Ambassador Program was an executive committee that answered to the Chief Executive Officer, and reported to the Board through a Staff liaison. He noted that the Ambassadors met monthly with the CEO.

Ms. Keyes proposed amendments to clarify that the Board President is an ex-officio member of each committee, not a voting member, and to clarify that the number of members for each committee should be qualified with the words "up to." Mr. Weber reread these amendments to the Board.

Mr. Dawson **moved** to approve Board Policy #113. Mr. Hall **seconded** the motion. The motion was **approved** 5-0, with Mr. Gazsy abstaining.

The Board took a break at 9:50 a.m., and returned to session at 10:02 a.m. Ms. Perkins left the meeting.

d. Item d. was tabled for further research.

8. New Business.

a. The Board considered Board Policy #114, Director Conflict of Interest, out of order. Mr. Peck asked Mr. Sweetin to present the policy to the Board. Mr. Sweetin provided background on this and discussed the importance of raising any potential conflict issues with counsel or Human Resources.

The Board requested an amendment clarifying that removal for violation would be by an affirmative vote of the Board.

Hall **moved** to approve as amended. Mr. Johnson **seconded** the motion. The motion was **approved** on a vote of 5-0, with Mr. Gazsy abstaining.

b. Bad Debt write-off. Bad debt write-off was proposed for a total of \$54,413.85 to be set off against capital credits retirements of \$32,169.01, for a net write-off of \$31,901.39. There were questions from the Board regarding bad debt processes

Mr. Hall **moved** to approve the bad debt write-off. Mr. Gazsy **seconded** the motion. The motion was **approved** unanimously.

Early Capital Credit Retirements. Early Capital Credit retirements requests were presented in the amount of \$31,681.74, with an estimated net present value of \$15,610.79. Mr. Hall **moved** to approve the Early Capital Credit Retirements. Mr. Gazsy **seconded** the motion. The motion was **approved** unanimously.

- c. Mr. Peck presented the monthly report on donation requests. Mr. Peck explained that the Amargosa Valley Fire Dept. has requested donation of the a trailer that would otherwise be sold at the auction. Mr. Gazsy **moved** to approve the donation request. Mr. Dawson **seconded** the motion. The motion was **approved** 5-0, with Mr. Hall abstaining. Mr. Peck noted that the remaining items were not extraordinary and had been approved by the interim CEO.
- d. Mr. Peck presented the donation request for the Integrity Fund from CFC. The Board discussed the donation program and VEA's previous participation, which would occur through a reduction in capital credit receipts. Mr. Peck noted that the standard contribution is typically 5%, or a dollar limit. The Board discussed this at length, including dollar amounts and previous donations. Mr. Gazsy **moved** to donate 5% of the capital credit receipts. Mr. Hall **seconded** the motion. The motion was **approved** unanimously.

9. CEO and Staff Reports.

- a. Mr. Peck updated the Board regarding the upcoming annual meeting, and noted that the Members for Change petition would be discussed in executive session. He discussed a number of other changes and updates that are underway. He noted that Broadband is a challenging business, but explained that the direct and indirect benefits of the Broadband project are exceptional. Mr. Peck congratulated the Board on the choice to roll out the Broadband, and noted that he would like to do a cost of service study to offer the Board a clear picture of the costs of the program, in order to fully understand the costs of the business. He noted that he was leaning towards recommending that VCA be rolled into VEA as a division, but does not yet have the information to make a recommendation.

There was further conversation related to strategy of how to make VCA financially viable while bringing it within VEA. Concerns were raised by the Board President that the Board has been telling the community that VCA will be its own separate company. Mr. Peck explained that he did not think that the data was sufficiently collected yet to make a determination. Mr. Peck stated that he will set up a special meeting around July to provide more information for future budgets so that an ultimate decision can be made. Mr. Peck further explained the importance of the communications business to the business model of the co-op and to its long-term financial viability.

Mr. Peck requested approval of the cost of service study for the VCA/VEA issue. Mr. Gazsy asked about cost and Mr. Peck responded that the cost would be around \$45,000.

Mr. Gazsy **moved** to approve the cost of service study. Mr. Dawson **seconded** the motion. The motion was **approved** unanimously.

Mr. Morrison stated that it would take years for VCA, if separated, to acquire its own debt. Mr. Morrison pointed out that cash flow is barely positive with VCA and that it's going to be very difficult for VCA to be self-sufficient if spun off. Mr. Gazsy asked why benefits have to be the same between VCA and VEA. Mr. Morrison referred the question to Bart Thurgood. Mr. Thurgood stated that benefits do not have to be the same, and that while the benefits were made the same by management previously, that does not have to be the case. Mr. Gazsy expressed approval of adjusting pay.

Mr. Peck stated that the President of GridLiance West was in contact with him and invited him to the Sloan Canyon line dedication.

Mr. Peck turned to the issue of the Gigawatt-1 PPA. Mr. Peck deferred talking about it further until May 9th. Mr. Peck stated that at about 5 years prices start increasing very rapidly.

The Board discussed the recently passed legislation related to the renewable portfolio standard. Mr. Maughan discussed the high price of renewables. Mr. Hengel noted that the law passed in the senate and assembly unanimously and governor has signed. Mr. Hengel said that, looking into the future, there may be some effects on co-ops unless they have a load less than one million megawatts.

Mr. Peck stated that 53% of costs to VEA are from wholesale power. He discussed the reality that a net-metering account is a mini-PPA for which VEA is liable for 20 years. At the end of the 20 years there would be a subsidy of over \$20 million.

The Board discussed power issues at length.

- b. Mr. Thurgood presented the Human Resources report. He discussed some employee moves and noted the posting of three open positions: metering technician, apprentice substation technician, and supervisor of field and project engineering.

Mr. Thurgood spoke to Mr. Peck's suggestion of an employee development survey. Mr. Thurgood stated that VEA has completely revised its annual review form. Redundancies have been removed and the form is now automated. The Board discussed this issue at length.

Mr. Thurgood also reported that during employee meetings, member from Amargosa threatened to come in and shoot all employees. Employees went through the process of figuring out how to handle that type of situation, including additional trainings on active-shooters and crisis management. In May there will be an anti-harassment training.

Mr. Dawson commented that Board evaluations haven't been done in a few years and should be done again. Mr. Peck volunteered both forms and process for the evaluations and said he would work on doing that over the next month. Mr. Peck asked that he be sent a copy of the old Board evaluation form.

Mr. Dawson further commented on employee meetings that he has attended recently. Mr. Dawson said it has been a valuable experience, and that he recently met with an employee and asked what he thought about a Director sitting in the meetings. The employee said he was fine with it. Mr. Dawson expressed sensitivity about Directors being present at employee meetings.

- c. CFO Report. Mr. Morrison stated that an auditor will be present at 1:30 a.m. to discuss findings and asked the Board if they had any questions. The Board expressed interest in talking about customer service and frustrations from members around customer service. Mr. Morrison noted that you can't remove people from a highly manual process and not expect growing pains. Mr. Morrison stated that 800 payments have been made on the automated system since its implementation six weeks ago. Mr. Morrison also commented that it's a nice number, but hard to know exactly what that number means at this point.

Mr. Hall asked if there is an uptick in calls because of information available on the website. Mr. Morrison stated that there has not been an uptick in calls. Moreover, the fact that only 3 people showed up to this meeting is indicative of what putting information on the website did for transparency.

- d. Power Resources Report. Mr. Maughan presented the Power Resources Report. Mr. Maughan provided charts for the original report. He stated that the charts will be included moving forward. Mr. Peck spoke to long-term power costs and the importance of reviewing strategies to keep those costs low. The Directors discussed the feasibility of the solar train battery project. Doug stated that staff is considering having the project leader speak to the Board at the May 9th meeting.

The Board took a break for lunch at 12:19 p.m., and returned at 1:15 p.m.

- 10. Mortgage Agreement Update. Mr. Morrison presented the amendments to VEA's mortgage, credit agreement, and promissory note, which had been requested by VEA's banks in order to secure the previously unsecured credit lines. The Board asked numerous questions of Mr. Morrison. Mr. Weber also discussed the requested amendments. Mr. Weber presented three resolutions: Resolution 007, to approve execution of the documents, and Resolutions 008 and 009, approving the documents that were specific to each bank, and updating or affirming the incumbency certificates, respectively. Mr. Dawson **moved** to approve Resolutions 007, 008, and 009 as a slate. Mr. Gazsy **seconded** the motion. There was some additional conversation about the effect of the resolutions. The motion was **approved** unanimously.

The Board entered executive session at 1:37 p.m., and all VEA Staff left the meeting. The Board returned to regular session at 2:45 p.m., following a break, and the previously present Staff members returned to the meeting, except Mr. Peck, who was ill.

11. Staff Reports, Continued.

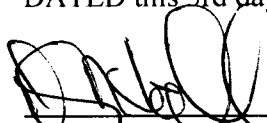
- a. Communications Report. Mr. Hengel reported on the preparations for the upcoming annual meeting of the members, and discussed the agenda with the Board. The Board discussed the plans for the meeting. Mr. Hengel then presented the upcoming Ruralite.
- b. Engineering and Operations. Mr. Andreason discussed the Engineering and Operations report. The Board asked questions about net energy metering. Mr. Johnson also provided some additional information regarding processes for installs. Mr. Andreason also commented on the new Reliability Coordinator, and some compliance items. He also gave the outage report and updated the Board regarding facilities. He reported on multiple items in the written report. He also reported near-misses and many other details within the written report.

The Board adjourned the meeting at 3:20 p.m., returning at 3:29 p.m. in executive session.

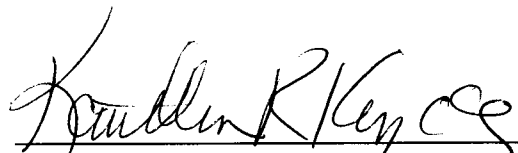
It was determined that the next meeting of the Board of Directors would be held on Thursday, May 31, 2019.

There being no further business to come before the Board, Mr. Hall **moved** to adjourn the meeting. The motion was **seconded** by Mr. Gazsy, and it was unanimously **approved**. The meeting was adjourned at 5:28 p.m.

DATED this 3rd day of June, 2019.



David Hall, President



Kathleen Keyes, Secretary