

SHELBY ENERGY COOPERATIVE, INC.
Shelbyville, Kentucky
Board of Directors' Meeting – February 16, 2017

Regular Meeting The following persons were present at 9:00 a.m. at Shelby Energy's headquarters on February 16, 2017:

Directors:

Ashley Chilton	Chairman
Randy Stevens	Vice Chairman
Roger Taylor, Jr.	Secretary-Treasurer
Wayne Stratton	Director
Diana Arnold	Director
Pat Hargadon	Director

Also Present:

Debra Martin	President & CEO
Mary Federle	Manager, Billing & Customer Service
Jason Ginn	VP, Operations & Engineering
Lauren Gutermuth	Executive Assistant
Denise Hume	Manager, Accounting & Finance
Jared Routh	SVP, Finance & Cooperative Services
Candi Waford	Manager, Member Services
Donald Prather	Attorney

February Board Information Copies of the following were provided to Board Members on February 9, 2017:

1. Expense Statement for Directors and Attorney;
2. Shelby Energy February, 2017 Newsletter;
3. Agenda;
4. January 19, 2016 Minutes;
5. Cooperative Services Department Board Report for February 16, 2017;
6. Five-Year Property Tax Comparison;
7. Shelby Energy USDA RUS Financial & Statistical Report for December, 2016;
8. Actual v. Budget Report for December, 2016;
9. Overtime Payroll Report Year-to-Date 7-year summary through December, 2016;
10. Exceptions Report for Expenses for December, 2016 Year-to-Date;
11. Cashflow Statement for December, 2016;
12. 12-month Rolling Statement of Operations through December, 2016;
13. Fuel Cost & Environmental Surcharge Report through December, 2016;
14. Check Register for January, 2017;
15. Economic Development Loans Report;
16. 2016 Expense Reports;
17. Shelby Energy Services 2016 Financial Transactions;
18. 2015 Outstanding/Unreconciled Checks Summary;
19. Operations Report for January, 2017;

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20. Safety Report for January, 2017;
21. 2016 Property Damage Report;
22. Member Services Report for January, 2017;
23. 2016 New Member Survey Report;
24. 2016 Envirowatts Report;
25. 2016 Co-Op Connections Card Report;
26. 2016 Wintercare Donations;
27. 2016 Donations Report;
28. Billing and Customer Service Report for January 2017;
29. Uncollectible Accounts from November, 2016 Disconnect Dates;
30. Details on Write-Offs Greater than \$500 for November, 2016 Disconnect Dates;
31. Summary of Write-Offs – Prior Years Comparison Summary;
32. Capital Credit Estate Refunds for January, 2017;
33. 2012 through 2016 Capital Credit Retirements;
34. 2012 through 2016 Write-Off Delinquent Accounts;
35. KAEC February 21, 2017 Board Meeting Notice;
36. KAEC December 20, 2016 Board of Directors Meeting Minutes
37. Shelby Energy Cooperative Employee Development Cost Comparison 2010 – 2016;
38. Engineering Report for January, 2017; and
39. Outage Report for January, 2017.

Copies of the following were provided to Board Members on February 15, 2017:

1. EKPC February 14, 2017 Board Meeting Agenda; and
2. EKPC Financial Review as of December, 2016;

- Call To Order** The regular Board meeting was called to order by Chairman Chilton.
- Safety Moment** Hume presented the Safety Moment by reminding those present that springtime is when people begin to get out walking as the weather improves, and everyone should be aware of the increased number of pedestrians when driving. Although not safety related, she also cautioned people to be careful about credit card skimmers which have been found on gas pumps in Spencer County.
- Minutes** The minutes of the January 19, 2017 Board of Directors meeting were approved.
- Cooperative Services Report** Routh gave the Cooperative Services Report for January. It was recently determined that four of Shelby Energy's substations have DSL internet connections nearby. Since DSL internet service is more reliable than wireless in certain situations, such as storms, Shelby Energy is proceeding to install DSL service at these four substations as the primary means of communication while continuing to utilize the wireless cards as backup communication in case of DSL failure. Consistency and dependability for communication with Shelby Energy's AMI meters are two of the main reasons for this project, including more accurate updates of member usage for Prepay Service accounts. The hardware at Shelby Energy's first two remote payment centers at Riverside Produce and Henry

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County Supply became too old to install the required software upgrades. The hardware at these centers has been replaced. The more current equipment at the Bedford and Shelbyville remote payment centers received the required software update only. The new Senior Vice President of Power Delivery Service position was posted and Shelby Energy has received numerous applications from qualified candidates.

The Department will be examining opportunities to convert some of Shelby Energy's existing variable rate loans to fixed rate loans if the conversions appear prudent at the time each conversion opportunity arises.

Property Tax Summary

Routh presented the property tax summary which compared the \$892,226 in property taxes paid by Shelby Energy during 2016 with the four previous calendar years. The amount paid represented a 6.14% increase over the amount paid in 2015.

Accounting & Finance Report

Hume presented the Accounting & Finance report for December, 2016. These reports are preliminary due to various year-end adjustments which have not yet been finalized. Shelby Energy's modified TIER through December was 0.573 and its OTIER was 0.507, both below the RUS requirement of 1.10. These figures compare to a modified TIER of 1.188 in December, 2015 and an OTIER of 1.145 in December, 2015. Shelby Energy had 40.16% of its assets in equity and its current ratio was 1.12. Its Power Cost to Revenue Ratio was 75.50%. Shelby Energy's rolling 12-month average line loss was 3.60%, its rolling TIER was 2.03, and its rolling OTIER was 0.51. The rolling TIER figure includes an estimated capital credit allocation from East Kentucky Power Cooperative, so the final figure may change.

The environmental surcharge and fuel cost adjustments are in an over-recovery stage. The year-end overtime payroll increased over last year.

Economic Development Loan Report

Hume reported Shelby Energy has two outstanding Economic Development loans, one to the Lake Cumberland Area Development District and another to the Little Kentucky Watershed District. The prior loans to Henry County Water District No. 2 and the Shelby County Industrial and Development Foundation have been repaid. Shelby Energy has on hand a total of \$566,734 in funds available to make low-interest loans to qualifying economic development projects. There is a \$500,000 maximum loan amount to any one entity. Anyone having information regarding a potential loan applicant is encouraged to contact Shelby Energy. These funds were originally obtained as a grant from the USDA and are restricted to economic development loans that meet the required guidelines.

Associated Organization Patronage Capital Report

Hume reported on the patronage capital allocations and actual payments to Shelby Energy from the eight related organizations. The largest allocation was from East Kentucky Power Cooperative, but Shelby Energy has not yet received actual payment of any of these capital credits. Shelby Energy did receive capital credit payments from the National Rural Utilities Cooperative Finance Corporation and Federated Rural Electric Insurance Exchange, along with smaller payments from Southeastern Data Cooperative, Inc.,

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United Utility Supply Cooperative Corporation, and Cooperative Response Center, Inc. with all received totaling \$23,771.00.

Five-Year Financial Comparison	Shelby Energy's operating margins from 2011 were \$458,735, compared to a loss of \$743,769 in 2016. Shelby Energy's TIER was 2.53 in 2011 and decreased to 2.01 in 2016. Shelby Energy's OTIER was 1.25 in 2011 and decreased to 0.51 in 2016. The difference between OTIER and TIER is that TIER includes capital credits allocated from associated organizations such as EKPC, which have not been actually paid to Shelby Energy. OTIER is based strictly upon Shelby Energy's actual operating income and expenses.
Shelby Energy Services Report	Hume reviewed a report showing the receipts and expenses to/from Shelby Energy's subsidiary, Shelby Energy Services, LLC, which owns Shelby Propane Plus.
Shelby Propane Plus Report	Hume presented the Shelby Propane Plus report for January, 2017. Shelby Propane Plus had positive net income of \$131,292 for January, up approximately \$25,000 over January, 2016.
Uncashed Checks	Hume presented a list of uncashed accounts payable checks totaling \$1,141.98 from calendar year 2015. Upon motion duly seconded, the Board approved voiding these checks.
Operations Report	Ginn presented the Operations report for January, 2017. Shelby Energy contract crews managed to clear 31 miles of right-of-way despite the very wet weather resulting in very muddy work conditions.
Safety Report	Ginn presented the Safety report for January, 2017. A total of 6 safety inspections of Shelby Energy and contractor crew occurred in January with no safety violations. Shelby Energy construction crews had worked 55,283 hours since June 1, 2016, Elliott construction crews had worked 220,872 hours since September 1, 2008, Phillips Tree Service crews had worked 69,128 hours since September 22, 2013, and Wright's Tree Service had worked 66,676 hours since July 6, 2015, all without a lost-time accident.
2016 Property Damage Report	Ginn presented the Property Damage report for calendar year 2016. There were not any damage incidents in the last quarter of 2016. The yearly property damage claim total has been trending down for the last two years.
Engineering Report	Ginn gave the Engineering report for January, 2017.
Outage Report	Ginn gave the Outage report for January, 2017. There were a total of 28 outages which affected 2,121 members. However, a single incident was responsible for the outage affecting 1,530 of those members when a vehicle struck and significantly damaged a Shelby Energy pole. Shelby Energy crews managed to cut off the damaged pole, remove the remainder of the pole from the existing hole, and insert the remaining damaged pole into the hole thereby quickly restoring temporary service to members until the pole could

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be replaced. Equipment failure, vehicles/machinery, and trees were the three largest causes of outage minutes in January.

Member Services Report	Waford presented the Member Services report for January, 2017. The number of members participating in the energy efficiency programs in January was similar to the participation in January, 2016.
New Member Survey	Waford presented the New Member Survey report for January through December, 2016 connects. Of the new members who returned the survey, 99.1% were either satisfied or very satisfied with their experience. The questionnaire return rate was 23%, which Waford considers very good for a survey return rate.
Envirowatts Report	Waford reported 60 Shelby Energy members are purchasing 106 increments of solar power.
Co-Op Connections Card	Waford presented the report for the amount of money saved by Shelby Energy members who used the Co-Op connections card to fill prescriptions in 2016.
Wintercare Donations	Waford presented the report showing a total of \$7,820 in wintercare donations received during 2016, consisting of Shelby Energy member and employee donations and the matching contribution from Shelby Energy.
2016 Donations	Waford presented the report showing a total of \$4,849 in donations/sponsorships made by Shelby Energy to various non-profit and charitable entities during 2016. Shelby Energy is reimbursed by Touchstone Energy for some of these contributions considered promotions of the Touchstone Energy brand.
Billing and Customer Service Report	Federle presented the Billing and Customer Service report for January, 2017.
Write-Offs	Federle reported there were uncollectible accounts totaling \$4,103.85 from November, 2016 disconnect dates. Upon motion duly seconded, these write-offs were written off for accounting purposes.
Capital Credits	Federle reported \$7,387.32 in capital credits were paid to 16 estates during January. Shelby Energy retired a total of \$598,956.04 in capital credits during 2016, up significantly from \$443,213.22 retired during calendar year 2011.
Prior Write-off Recap	Federle reported the total write-off of delinquent accounts has decreased over the past six years from a \$120,407.95 write-off in 2011 to a net recovery of \$13,997.35 in 2016. A portion of this improvement is due to the implementation of the prepaid service account program in 2012.

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- Executive Session** The Directors, Martin, and the Attorney entered into an executive session. After discussion concluded, upon motion duly seconded, the Board emerged from executive session. Upon emerging from executive session, no action was taken.
- KAEC Director Report** Stevens presented the KAEC Director report for January. There was no meeting in January.
- EKPC Director Report** Stratton presented the EKPC Director report for January. EKPC will have total margins of \$53.7 million during calendar year 2016, which is greater than expected since electric sales volume is decreasing. This level of margins is unlikely to continue.
- President & CEO's Report** Martin presented the President & CEO's report for January.

There being no further business, the meeting was adjourned. The next regular Board meeting will be held on March 23, 2017 at 9:00 a.m.



ROGER TAYLOR, JR., Secretary-Treasurer

Approved:



ASHLEY CHILTON, Chairman