

SHELBY ENERGY COOPERATIVE, INC.
Shelbyville, Kentucky
Board of Directors' Meeting – March 23, 2017

Regular Meeting The following persons were present at 9:00 a.m. at Shelby Energy's headquarters on March 23, 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
Jared Routh	SVP, Finance & Cooperative Services
Paul Shovlin	Manager, Engineering
Candi Waford	Manager, Member Services
Donald Prather	Attorney

Guest:

Alan Zumstein	Auditor
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March Board Information

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

1. Expense Statement for Directors and Attorney;
2. Shelby Energy March, 2017 Newsletter;
3. Agenda;
4. February 16, 2017 Minutes;
5. Shelby Energy USDA RUS Financial & Statistical Report for January, 2017;
6. Actual v. Budget Report for January, 2017;
7. 2017 vs. 2016 Operating Variance Report;
8. Overtime Payroll Report Year-to-Date 7-year summary through January, 2017;
9. Exceptions Report for Expenses for January, 2017 Year-to-Date;
10. Cashflow Statement for January, 2017;
11. 12-month Rolling Statement of Operations through January, 2017;
12. Fuel Cost & Environmental Surcharge Report through January, 2017;
13. Check Register for February, 2017;
14. KPIs – Accounting & Finance, January through December, 2016;
15. Employee Visa Card List as of December 31, 2016;
16. Year-to-Date Self-Funded Medical Plan Cost & Benefits Status Report;

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17. CFC Officer's Certificate of Compliance Worksheet & Certification for 2016;
18. Operations Report for February, 2017;
19. Safety Report for February, 2017;
20. KPIs – Operations & Engineering, January through December, 2016;
21. Engineering Report for February, 2017;
22. Outage Report for February, 2017;
23. 2016 Electric Distribution Utility Annual Reliability Report filed with PSC;
24. Operations & Engineering Vegetation Management Plan Methods, Guidelines, & Procedures Manual;
25. Member Services Report for February, 2017;
26. Energy Audits for February, 2017;
27. New Member Survey Report for January, 2017;
28. KPIs – Member Services, January through December, 2016;
29. Billing and Customer Service Report for February, 2017;
30. Uncollectible Accounts from December, 2016 Disconnect Dates;
31. Summary of Write-Offs – Prior Years Comparison Summary;
32. Capital Credit Estate Refunds for February, 2017;
33. KPIs – Billing & Customer Service, January through December, 2016;
34. Resolution – Appointment of EKPC Shelby Energy Board Representative;
35. 2017 Notice Deadlines;
36. KAEC March 21, 2017 Board Meeting Notice;
37. KAEC February 21, 2017 Board of Directors Meeting Minutes;
38. KAEC Financial Review as of February, 2017;
39. EKPC March 14, 2017 Board Meeting Agenda; and
40. EKPC Financial Review as of January, 2017.

Copies of the following were provided to Board Members on March 16, 2017:

1. 2016 Financial Audit.

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| Call To Order | The regular Board meeting was called to order by Chairman Chilton. |
| Safety Moment | Shovlin presented the Safety Moment. While OSHA requires work place employees to be aware of their exposure to hazardous chemicals, we also need to be aware of such dangers at home. This is national poison prevention week. There are approximately 700,000 emergency room visits per year due to accidental home poisonings. The three leading causes are prescription drugs, household cleaning products, and cosmetics. He urged all present to be diligent in safeguarding hazardous substances from those too young to realize the danger. |
| Minutes | The minutes of the February 16, 2017 Board of Directors meeting were approved. |

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Audit

Allen Zumstein, CPA, presented Shelby Energy's 2016 audit. The audit report states he has audited the consolidated financial statements of Shelby Energy Cooperative, Inc. ("Shelby Energy") and its subsidiary, Shelby Energy Services Corporation, Inc. ("Services Corporation") which comprise the balance sheets as of December 31, 2016 and 2015, and the related statements of revenue and comprehensive income, changes in equities and cash flows for the years then ended, and the related notes to the financial statements. In his opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Shelby Energy and Services Corporation as of December 31, 2016 and 2015, and the results of their operations and cashflows for the years then ended in accordance with accounting principles generally accepted within the United States of America. Services Corporation owns Shelby Propane Plus, LLC.

Zumstein pointed out that the Consolidated Balance Sheets show Shelby Energy has 23% equity not counting the East Kentucky Power Cooperative credit credits.

The Consolidated Statements of Revenue and Comprehensive Income show a slight increase in operating revenues over 2015, but not enough to overcome the increase in operating expenses including the cost of power and propane, depreciation, and operations and maintenance expenses. As a result, Shelby Energy had negative operating margins of \$636,520, as compared to positive operating margins in 2015 of \$250,626.

The Statement of Changes in Members' Equity shows Shelby Energy refunded \$599,902 in capital credits to its members in 2016.

The Consolidated Statements of Cash Flows shows Shelby Energy had a net decrease in cash in 2006.

Zumstein then reviewed the Notes to Financial Statements. Periodic depreciation studies are required by PSC, and Shelby Energy filed one with its recent rate case. Shelby Energy is exempt from federal and state income taxes. Income earned by the Services Corporation, which includes income or loss from Shelby Propane Plus, is taxable. Shelby Energy has retired a total of \$8,827,326 in capital credits to its members over the years, much of which has been paid in relatively recent years.

Zumstein reviewed the Consolidated Balance Sheets for the year ending December 31, 2016.

Zumstein reported that his review of Shelby Energy's internal controls over financial reporting, compliance and other matters based on the audit showed no material weaknesses.

Finally, Zumstein noted that his review of Shelby Energy's records indicate Shelby Energy has complied with all of its mortgage requirements and regulatory requirements.

After answering questions from the Board, Zumstein departed the meeting.

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Finance & Cooperative Services Report Routh gave the Finance & Cooperative Services Report. Shelby Energy had negative margins of \$103,869 in January. Shelby Energy 17,468 services in place at the end of January, up 104 from January, 2016.

Shelby Energy's modified TIER in January was 0.148 and its OTIER was 0.125, both below the RUS requirement of 1.10. Shelby Energy had 39.32% of its assets in equity. Its Power Cost to Revenue Ratio was 78.89%. Shelby Energy's rolling 12-month average line loss was 3.32%, its rolling TIER was 1.92, and its rolling OTIER was 0.39. Shelby energy had a negative change in cash of \$135,541 during January.

The environmental surcharge and fuel cost adjustments are in an over-recovery stage. The amount of premiums paid by Shelby Energy into its self-funded medical plan exceeded the amount of benefits paid during January and February of this year.

KPIs – Accounting & Finance Routh reported the Accounting & Finance Key Performance Indices ("KPIs") for January through December, 2016. Shelby Energy's 2016 TIER of 2.03 was above the target of 1.25, but its OTIER of 0.51 was below the target of 1.10. TIER and OTIER respectively measure the ability to earn total margins versus electric-operation-only margins sufficient to cover interest on long-term debt. Shelby Energy's average OTIER over the last three years is still greater than 1.10. The DSC and MDSC ratios measure the ability to generate sufficient funds to cover long-term debt payments, with the modified ratio excluding non-cash amounts. Shelby Energy's 2016 DSC was 1.75 and its MDSC was 1.07. The MDSC did not meet the target level of 1.35. Shelby Energy's equity ratio, which measures the portion of plant and other assets financed by member equity, was 40%, which is within the target range of 30%-40%. The current ratio, which measures cash flow stability and short-term solvency, was 1.08, which is within the target range of 1-2.

Probate Plus Report Routh presented the Shelby Propane Plus report for February, 2017. It had negative net income of \$9,641 for February, as compared to a profit for February of 2016. The loss this year is due to the unusually warm weather, which reduced demand for propane.

CFC Annual Certification Routh presented the National Rural Utilities Cooperative Finance Corporation Officers Certificate of Compliance Worksheet and Certification for 2016 which will be submitted to CFC and will verify that Shelby Energy has not made any changes since the last annual CFC certification.

Operations Report Ginn presented the Operations report for February, 2017. The number of underground locates continues to increase, with 541 having been performed thus far in 2017 versus 473 during January and February of 2016. This continues to reflect increased construction activity. Shelby Energy contract crews have cleared 81 miles of right-of-way, considerably more than the 7 miles cleared during this same time period last year.

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Safety Report	<p>Ginn presented the Safety report for February, 2017. A total of 7 safety inspections of Shelby Energy and contractor crew occurred in February with no safety violations. Ginn emphasized that 5 different people perform these safety inspections.</p> <p>Shelby Energy construction crews had worked 61,856 hours since June 1, 2016, Elliott construction crews had worked 223,344 hours since September 1, 2008, Phillips Tree Service crews had worked 69,769 hours since September 22, 2013, and Wright’s Tree Service had worked 70,496 hours since July 6, 2015, all without a lost-time accident.</p>
KPIs – Operations & Engineering	<p>Ginn presented the Operations & Engineering KPIs for January through December, 2016. The first KPI category of safety consists of the incident rate and DART rate. Both were 2.39 for 2016, meeting the target of less than 2.74. In the second category of Reliability, the number of hours of unplanned and planned outages are both down from 2015. The total number of members affected by outages increased slightly. The average outage time in minutes was the lowest it has been in that past five years. The final category of Productivity is still showing a return trip percentage exceeding the goal of 20%.</p>
Engineering Report	<p>Ginn gave the Engineering report for February, 2017. February was a very good month for outages, with only 432 members impacted. The March outage report will be bad due to the recent storm when almost 9,000 members were without power. The three leading causes of outages in February were scheduled maintenance, lightening, and trees. It is unusual to see this much lightening damage so early in the year.</p>
PSC Reliability Report	<p>Ginn presented Shelby Energy’s 2016 Distribution Reliability Report which has been submitted to the PSC.</p>
Member Services Report	<p>Waford presented the Member Services report for February, 2017.</p>
New Member Survey	<p>Waford presented the New Member Survey report for January, 2017. Of the new members who returned the survey, 100% were either satisfied or very satisfied with their experience.</p>
KPIs- Member Services	<p>Waford presented the Member Services KPIs for January through December, 2016. Shelby Energy’s American Consumer Satisfaction Index for 2016 was 86%, which was within the target range of 85—94%. A total of 413 Energy Star appliance rebates were paid to Shelby Energy’s members during 2016, up from 293 in 2015.</p>
Billing and Customer Service Report	<p>Federle presented the Billing and Customer Service report for February, 2017. Five hundred ninety four members were enrolled in the prepaid billing account service at the end of February, and she noted that this number had recently increased to 600.</p>

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Write-Offs	Federle reported there were uncollectible accounts totaling \$1,747.77 from December, 2016 disconnect dates. Upon motion duly seconded, these write-offs were written off for accounting purposes. The total write-offs thus far in 2017 are \$8,177.24, down slightly from the same time in 2016.
Capital Credits	Federle reported \$12,283.39 in capital credits were paid to 27 estates during February.
KPIs – Billing & Customer Service	Federle presented the Billing & Customer Service KPIs for January through December, 2016. There were only two member concerns reported to the PSC, well within the target range of 0-5 members. The 12.27% increase in members paying their monthly bills through the automatic bank draft service was well above the target range of 2.5% - 3%. Shelby Energy wrote off 0.07% of its electric revenue in 2016, easily beating the 0.5% – 0.8% write-off target range.
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.
EKPC Director Appointment	Upon motion duly seconded, the Directors adopted a resolution appointing Stratton as Shelby Energy's representative on EKPC's Board of Directors.
Annual Member Meeting Schedule	Martin presented a list of the significant activities and dates for various actions to be completed prior to the Shelby Energy 2017 annual member meeting on June 22, 2017.
Nominating Committee	Chairman Chilton appointed members Mike Darst, Brian Webb, Edmond Rockwell, Dale Jennings and David McGuire as members of the nominating committee.
Credentials & Election Committee	Chairman Chilton appointed members Steve Waits, Ray Tucker, Wendell Truman, Aaron Snelling, and Scott G. Stark as members of the Credentials & Election Committee.
KAEC Director Report	Stevens presented the KAEC Director report for February.
EKPC Director Report	Stratton presented the EKPC Director report for February.
President & CEO's Report	Martin presented the President & CEO's report for February.

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There being no further business, the meeting was adjourned. The next regular Board meeting will be held on April 21, 2017 at 9:00 a.m.



ROGER TAYLOR, JR., Secretary-Treasurer

Approved:



ASHLEY CHILTON, Chairman