

SHELBY ENERGY COOPERATIVE, INC.
Shelbyville, Kentucky
Board of Directors' Meeting – January 19, 2017

Regular Meeting The following persons were present at 1:00 p.m. at Shelby Energy's headquarters on January 19, 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	Manager, Cooperative Services
Candi Waford	Manager, Member Services
Donald Prather	Attorney
Billy Moore	GIS Technician

Guests:

Michael Ray, Vice President of Henry County Economic Development
Brett Waford, President Henry County Economic Development
Gary Mathis, Regional Director of I-71 Connected

January Board Information Copies of the following were provided to Board Members on January 13, 2017:

1. Expense Statement for Directors and Attorney;
2. Shelby Energy January, 2017 Newsletter;
3. Agenda;
4. December 16, 2016 Minutes;
5. Cooperative Services Department Board Report for January 19, 2017;
6. Shelby Energy Loan Portfolio as of December 31, 2016;
7. Board Policy Review Schedule for 2017;
8. Shelby Energy USDA RUS Financial & Statistical Report for November, 2016;
9. Actual v. Budget Report for November, 2016;
10. Overtime Payroll Report Year-to-Date 7-year summary through November, 2016;
11. Exceptions Report for Expenses for November, 2016 Year-to-Date;
12. Cashflow Statement for November, 2016;
13. 12-month Rolling Statement of Operations through November, 2016;

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14. Fuel Cost & Environmental Surcharge Report through November, 2016;
15. Check Register for December, 2016;
16. FEMA Reimbursement Status Report;
17. Operations Report for December, 2016;
18. Safety Report for December, 2016;
19. 2016 Shelby Energy System Inspection Tracking Report;
20. Shelby Energy 10-year Scrap Price Comparison;
21. Engineering Report for December, 2016;
22. Outage Report for December, 2016;
23. Member Services Report for December, 2016;
24. New Member Survey Report, January through November, 2016;
25. Billing and Customer Service Report for December, 2016;
26. Uncollectible Accounts from October, 2016 Disconnect Dates;
27. Details on Write-Offs Greater than \$500 for November, 2016;
28. Summary of Write-Offs – Prior Years Comparison Summary;
29. Capital Credit Estate Refunds for December, 2016;
30. Member Inquiry Log – October through December, 2016;
31. Adjustment Report – October through December, 2016;
32. CFC December 20, 2016 Board Report; and
33. CSC December 20, 2016 Board Report.

Call To Order The regular Board meeting was called to order by Chairman Chilton.

Safety Moment Federle presented the Safety Moment by stating that January is a month where there are many people burning fireplaces and using space heaters. She encouraged checking smoke detectors to make sure they are functioning properly.

Henry County Economic Development Report Michael Ray, with the Henry County Economical Development Council presented the Board with a report on various economic development events which occurred in Henry County during 2016. He introduced Brett Warford and Gary Mathis, who is the Regional Director for Kentucky I-71 Connected, which is the new name adopted by the existing regional development group consisting of Henry, Oldham, Carroll, Gallatin, Owen and Trimble Counties.

Henry County submitted information packages to six potential companies in 2016. Three site visits occurred. The Six Mile Creek distillery is being constructed in Defoe by Patriot Brands. It will include an 8,000 square foot distillery to produce bourbon and other spirits. Operations are scheduled to begin in August, 2017. This facility will be served by Shelby Energy. The Kentucky Cannabis Company has taken an option on land on Henry County Commerce Pike hoping for favorable legislation this year. Trackside Butcher Shop held its grand opening in Campbellsburg. Save A Lot opened a new grocery store in Eminence in the old Norm's Food World building and Dollar General Store opened a new store in New Castle. Zoning has approved a Transfer Station in Campbellsburg for Driveway

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Dumpster. An Amish furniture business is being developed on Buyer's Lane in Pleasureville.

After answering questions from the Directors, Ray, Waford, and Mathis departed the meeting.

Minutes The minutes of the December 16, 2016 Board of Directors meeting were approved.

Outage Management System Billy Moore, the Shelby Energy GIS technician, and Jason Ginn brought the Directors up to date on Shelby Energy's Outage Management System ("OMS"). The OMS identifies outages on Shelby Energy's system based upon calls from members. It also predicts additional member outages based upon the calls received. The OMS produces maps reflecting this information. There is an internal OMS map and an external OMS map.

The internal OMS map, which can be viewed only by Shelby Energy employees, contains detailed information regarding which member accounts are out of service. It also predicts the likely extent of the overall outage based upon member call-ins. This internal system will be used by Shelby Energy employees to more quickly and accurately determine the extent of outages and the likely cause of those outages, which will in turn help restore service to those members quicker.

The external OMS map, which is accessible to the public, also indicates the number of customers who are out of service, but does not give members specific information on outages. This is to protect individual members' privacy protect members from persons who might want to take advantage of the fact that someone does not have electric service. The external OMS map can be accessed via the Shelby Energy website on a computer or smart phone.

After answering various questions, Moore departed the meeting.

Accounting & Finance Report Hume presented the Accounting & Finance report for November, 2016. Shelby Energy's modified TIER through November was 0.655, and its OTIER was 0.630, both below the RUS requirement of 1.10. These figures compare to a modified TIER of 1.234 in November, 2015 and an OTIER of 1.224 in November, 2015. Shelby Energy had 40.23% of its assets in equity and its current ratio was 1.15. Its Power Cost to Revenue Ratio was 75.41%. Shelby Energy's rolling 12-month average line loss was 3.31%, its rolling TIER was 1.95, and its rolling OTIER was 0.60.

The environmental surcharge and fuel cost adjustments are in an over-recovery stage. Shelby Energy had a negative change in cash in November. Year-to-date overtime payroll has increased, but is still less than this time frame last year.

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- FEMA Update** Hume brought the Board up-to-date on the status of FEMA disaster reimbursements to Shelby Energy. There are still several outstanding reimbursement requests which should be paid, but which have not yet been settled due to FEMA employee shortages. Shelby currently has one outstanding claim for reimbursement, totaling \$13,233.34.
- Shelby Propane Plus Report** Hume presented the Shelby Propane Plus report for December. Shelby Propane Plus had positive net income of \$56,233 for December, an increase over the same time period last year. However, Shelby Energy's net income to date is \$135,470, down from \$211,403 a year ago. Hume attributes most of this decrease to milder weather.
- Cooperative Services** Routh presented the Cooperative Services report for December, 2016. A new computer firewall was installed on January 3, 2017 which, after only one week of operation, has successfully resolved the substation communication issues. A decision has been made to purchase the device. Shelby Energy's telephone service, which is provided by Windstream, failed on December 16, 2016, or possibly the evening of the 15th. Shelby Energy was unaware of the outage until a member informed an employee of the problem. The telephones came back online on December 20, then went back down on December 21, and were finally restored to service on December 22. Once the problem was discovered, Shelby Energy's IT specialist arranged to have both the 1-800 number and the local number routed to the response call center to receive incoming calls. Notifications regarding the situation were posted on social media. As a result of this situation, the IT specialist and manager will now receive an email every 15 minutes if the phone system is down. Shelby Energy is investigating options for a different telephone service supplier.
- Routh presented a 2017 review schedule listing the various Board polices which will be reviewed. Routh reported the amount of premiums paid by Shelby Energy into the self-insured medical fund in 2016 exceeded the amount of claims for that year.
- Loan Portfolio Review** Routh reported on Shelby Energy's loan portfolio. It was the correct decision when Shelby Energy converted its CFC loans to fixed rates since CFC rates are increasing. Shelby Energy now has 61.02% of its loans at fixed interest rates and will be well positioned if interest rates rise as expected.
- Office Building Renovation** Routh reported the office building renovations are now complete at a cost only slightly over the original estimate.
- Operations Reports** Ginn presented the Operations report for December, 2016. Shelby Energy continues to switch out old outdoor lights and replace them with new LED lights rather than repair the old lights. The number of underground locates has continued to increase and has become a significant expense because there is a fee charged by the 811 system for each call for a location, which is repeated every 21 days, plus there is a cost for the field work involved each time a locate is performed.

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Shelby Energy cleared a total of 373 miles of right-of-way in 2016. This is roughly the number of miles which needs to be cleared every year in order to keep Shelby Energy on its 5-year right-of-way clearing plan. The 5-year plan consists of the following as to each mile of right-of-way: the right-of-way is cut the first year and sprayed the second year. Generally, nothing has to be done during the third year. The section of right-of-way is analyzed during the fourth year to determine whether another spray is required and, if so, it is performed. Nothing is done during the fifth year except as needed. Finally, five years after that section of line was originally cut, it will be cut again and the cycle repeated.

Safety Report Ginn presented the Safety report for December, 2016. A total of 124 safety inspections of Shelby Energy and contractor crew occurred in 2016 with only three findings, all of which were very minor.

Shelby Energy construction crews had worked 48,265 hours since June 1, 2016, Elliott construction crews had worked 218,978 hours since September 1, 2008, Phillips Tree Service crews had worked 67,836 hours since September 22, 2013, and Wright's Tree Service had worked 63,398 hours since July 6, 2015, all without a lost-time accident.

Annual System Inspection Ginn reported on the status of Shelby Energy's program for inspecting its system. One thousand forty two miles were ground inspected during 2016, which is 100% of the goal. One-half of the system is ground inspected each year so that the entire system is inspected every two years. In reality, the entire system is inspected each year, one-half by ground inspection and one-half by air inspection. This is more than the PSC requires.

Scrap Metal & Material Sales Report Ginn gave the 10-year scrap price comparison report. Scrap sales have been steadily declining from 2011 through 2013, when Shelby Energy replaced much of its large-diameter copper lines. The lines now being replaced are aluminum wrapped around a steel center cable, which has less scrap value.

Engineering Report Ginn gave the Engineering report for December, 2016.

Outage Report Ginn gave the Outage report for December, 2016. Unfortunately, the same feeder line was out two days in a row before Shelby Energy crews finally determined the cause and corrected it for good. Trees were the single biggest cause of outages during 2016, followed by equipment failure and lightning. Ginn believes the number of outages caused by trees will go down with Shelby Energy's increased right-of-way trimming program.

Vegetation Management Plan Ginn presented the proposed Vegetation Management Plan Guidelines, Methods and Procedures Manual. This document pulls together various guidelines, methods and procedures that were previously scattered across various documents such as right-of-way trimming contracts. After discussion concluded, it was the consensus of the Board that this plan was approved.

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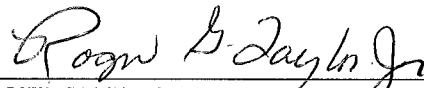
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Member Services Report	Waford presented the Member Services report for December, 2016. Member participation in all of Energy Star replacement programs except freezers increased in 2016 over 2015. Four energy audits were conducted in December. Applications for the Washington Youth Tour and the Scholarship Program are due March 10. The Annual Member Meeting is set for June 22, 2017.
New Member Survey	Waford presented the New Member Survey report for November connects. One hundred percent of the new members who returned the survey in November were either satisfied or very satisfied with their experience.
Billing and Customer Service Report	Federle presented the Billing and Customer Service report for December, 2016. There were 641 disconnects for non-payment in calendar year 2016, down from 811 in calendar year 2015. Bank draft participation continues to increase and now stands at 3,679 members. Thirty percent of Shelby Energy's members now participate in either the bank draft program, budget billing system, or prepaid billing account system.
Write-Offs	<p>Federle reported there were uncollectible accounts totaling \$2,325.62 from October, 2016 disconnect dates. The year-to-date write-offs have been \$28,178, down from \$51,768 during the same time frame in 2015. When the collection of formerly written off accounts is considered, including recovery of capital credits payments that would have otherwise occurred, there has actually been a net revenue gain through November, 2016 of \$14,859.</p> <p>After discussion concluded, upon motion duly seconded, these write-offs were written off for accounting purposes.</p>
Capital Credits	Federle reported \$3,061.05 in capital credits were paid to 7 estates during December. A total of \$69,181.72 has been paid to estates this year.
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 December.
EKPC Director Report	Stratton presented the EKPC Director report for December.
President & CEO's Report	Martin presented the President & CEO's report for December.

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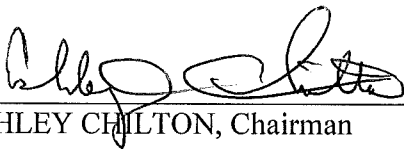
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There being no further business, the meeting was adjourned. The next regular Board meeting will be held on February 16, 2017 at 9:00 a.m.



ROGER TAYLOR, JR., Secretary-Treasurer

Approved:



ASHLEY CHILTON, Chairman