

SHELBY ENERGY COOPERATIVE, INC.
Shelbyville, Kentucky
Board of Directors' Meeting – July 20, 2017

Regular Meeting

The following persons were present at 9:00 a.m. at Shelby Energy's headquarters on July 20, 2017:

Directors:

Ashley Chilton	Chairman
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
Randy Stevens	SVP, Power Delivery Services
Donald Prather	Attorney

June Board Information

Copies of the following were provided to Board Members on June 14, 2017:

1. Expense Statement for Directors and Attorney;
2. Thank you Correspondence for Scholarship Award;
3. Shelby Energy June 2016 Newsletter;
4. June 22, 2017 Annual Membership Meeting Agenda;
5. 2016 Annual Report;
6. May 25, 2017 minutes;
7. Shelby Energy USDA RUS Financial & Statistical Report for April, 2017;
8. Actual v. Budget Report for April, 2017;
9. Overtime Payroll Report Year-to-Date 7-year summary through April, 2017;
10. Exceptions Report for Expenses for April, 2017 Year-to-Date;
11. Cashflow Statement for April, 2017;
12. 12-month Rolling Statement of Operations through April, 2017;
13. Fuel Cost & Environmental Surcharge Report through April, 2017;
14. Check Register for May, 2017;
15. Year-to-Date Self-Funded Medical Plan Cost & Benefits Status Report;
16. 2016 Kentucky Electric Cooperatives Statistical Comparisons Reports;
17. Billing and Customer Service Report for May, 2017;
18. Uncollectible Accounts from March, 2017 Disconnect Dates;
19. Summary of Write-Offs – Prior Years Comparison Summary;
20. Detail on Write-offs Greater than \$500 from March, 2017 Disconnect Dates;

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21. Capital Credit Estate Refunds for May, 2017;
22. Member Services Report for May, 2017;
23. New Member Survey Report for January through April, 2017;
24. Operations Report for May, 2017;
25. Safety Report for May, 2017;
26. Engineering Report for May, 2017;
27. Outage Report for May, 2017;
28. EKPC June 5, 2017 Board Meeting Agenda;
29. EKPC Financial Review as of April, 2017;
30. CFC June 8, 2017 Board Report; and
31. NCSC June 8, 2016 Board Report.

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

32. Propane Plus May Financial Statements;

July Board Information

Copies of the following were provided to Board Members on July 13, 2016:

1. Expense Statement for Directors and Attorney;
2. Correspondence with photo of Washington Youth Tour recipients from 50 years ago;
3. Thank you notes from Washington Youth Tour recipients;
4. Shelby Energy July 2016 Newsletter;
5. Agenda;
6. May 25, 2017 minutes;
7. Strategic Goal Summary Report;
8. Shelby Energy USDA RUS Financial & Statistical Report for May, 2017;
9. Actual v. Budget Report for May, 2017;
10. Overtime Payroll Report Year-to-Date 7-year summary through May, 2017;
11. Exceptions Report for Expenses for May, 2017 Year-to-Date;
12. Cashflow Statement for May, 2017;
13. 12-month Rolling Statement of Operations through May, 2017;
14. Fuel Cost & Environmental Surcharge Report through May, 2017;
15. Check Register for June, 2017;
16. Shelby Energy Loan Reports as of June 30, 2017;
17. Propane Plus June, 2017 Financial Statements;
18. CFC One Card Program Reimbursement Agreement;
19. Billing and Customer Service Report for June, 2017;
20. Uncollectible Accounts from April, 2017 Disconnect Dates;
21. Detail on Write-offs Greater than \$500 from April, 2017 Disconnect Dates;
22. Summary of Write-Offs – Prior Years Comparison Summary;
23. Capital Credit Estate Refunds for June, 2017;
24. Member Inquiry Log, April through June, 2017;
25. PSC Inquiry Log, April through June, 2017;

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26. Adjustment Report, April through June, 2017;
27. Member Services Report for June, 2017;
28. New Member Survey Report for January through May, 2017;
29. Safety Report for June, 2017;
30. 2017 Safety Improvement Plan;
31. Operations & Maintenance RUS Review Rating Summary;
32. Operations Report for June, 2017;
33. 2017 Shelby Energy System Inspection Tracking Report;
34. Engineering Report for June, 2017;
35. Outage Report for June, 2017;
36. CFC Forum July 11-14, 2017 Conference Notes;
37. Board Policy 109 – Attendance of Board Meeting by Members or Other Persons;
38. Board Policy 110 – Directors’ Fees;
39. Board Policy 111 – Meetings of Board of Directors;
40. Board Policy 201 – Organization Policy;
41. Board Policy 202 – Services of Consultants;
42. Board Policy 203 – Functions of Shelby Energy Attorney;
43. Board Policy 308 – Shelby Energy Credit Cards;
44. Board Policy 915 – Employee Travel and Out-of-Pocket Expenses;
45. 2017 Budget Amendments;
46. EKPC July 11, 2017 Board Meeting Agenda;
47. EKPC Financial Review as of July, 2017;
48. KAEC July 18, 2017 Board Meeting Agenda; and
49. KAEC Minutes from May 16, 2017 Board Meeting.

Copies of the following were provided to Board Members on July 14, 2017:

50. KAEC 2016 Audit; and
51. KAEC Financial Review as of June, 2017.

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| Call To Order | The regular Board meeting was called to order by Chairman Chilton. |
| Safety Moment | The Safety Moment was presented by Routh, who cautioned those present to be aware of their surroundings to avoid unintended accidents. Examples are blind spots when driving a vehicle. It is also important to be careful with your footing on the ground, but especially when off the ground. |
| Election of Officers | It was the consensus of the Directors to wait until August to elect officers, since a replacement director for District III has not yet been appointed. |
| Minutes | The minutes of the May 25, 2017 Board of Directors meeting were approved. |

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Strategic Plan Quarterly Review	Martin and the other staff members reviewed the status as of June 30, 2017 of Shelby Energy's strategic goals scheduled for completion in 2017. Two goals, in the safety and succession planning areas, have been completed. Efforts to improve employee involvement with safety direction and oversight through the safety committee will be ongoing.
Finance & Cooperative Services Report	<p>Routh presented the Finance & Cooperative Services report for April and May, 2017. He concentrated on the May reports. Shelby Energy's year-to-date modified TIER was 0.231 and its OTIER was 0.183, well below the RUS minimum requirements of 1.10. Shelby Energy had 39.33% of its assets in equity, its Power Cost to Revenue Ratio was 75.59%, and its current ratio was 0.73. Shelby Energy's May line loss was 3.83%, its May TIER was -1.72, and its May OTIER was -1.74. Shelby Energy had negative operating margins of \$289,129 as of the end of May.</p> <p>Overtime payroll was down significantly in May. Environmental surcharge and fuel adjustments are in an over-recovery stage.</p>
Check Register	The Directors did not have any questions regarding the check registers for May and June.
Loan Portfolio	Routh reviewed the status of Shelby Energy's loans as of May regarding unpaid balances, interest rates, and whether those interest rates are fixed or variable.
Shelby Propane Plus Report	Routh presented the Shelby Propane Plus report for June, 2017. It had negative net income of \$44,457 in June, similar to the \$47,026 loss in June of 2016.
Medical Insurance	Routh presented a status report on the cost and benefits paid under Shelby Energy's self-funded medical plan. Benefits paid have exceeded plan contributions thus far this year.
Credit Card Issuer Change	Routh advised the Directors Shelby Energy will be eliminating its current credit cards in order to avoid annual fees, transaction fees for fuel purchases, plus changing over to the Cooperative Finance Corporation One credit card program will pay cash rebates for card purchases. Upon motion, duly seconded, the Board approved this change.
FEMA Agent	Routh advised the Directors that a resolution is required to appoint Shelby Energy's authorized agents to deal with the Federal Emergency Management Agency. Upon motion, duly seconded, the Board adopted a resolution appointing Routh, Senior Accountant Sergio Cole, and General Accountant Jean McLaughlin as Shelby Energy's FEMA agents.
Billing and Customer Service Report	Federle presented the Billing and Customer Service report for May, 2017. The number of connects/reconnects increased to 202 in May over 191 in May of 2016. Similarly, there have been 899 connects/reconnects thus far in 2017 compared to 794 during the same time frame in 2016. This indicates system growth. There are now 22 net metering accounts on Shelby Energy's system, which are those where the member has solar panels and receives credit on their account for any excess electricity fed back into Shelby

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Energy's system. \$190 in incentives were paid in May to members who signed up their account to be paid automatically by the bank draft service.

Federle next reviewed the Billing and Customer Service report for June, 2017. \$270 in incentives were paid in June to members who signed up their account to be paid automatically by the bank draft service. The number of members paying their bill by credit card continues to increase while the number of walk-in payments at both the Bedford and Shelbyville offices continues to decrease. The number of members paying their bills at the Henry County Supply and Riverside Produce RPS locations is increasing every month.

Write-Offs	Federle reported there were uncollectible accounts totaling \$4,697.96 from March, 2017 disconnect dates and \$2,535.46 from April, 2017 disconnect dates. Upon motion, duly seconded, these amounts were written off for accounting purposes. The total write-offs thus far in 2017 are \$19,959.26, up only slightly from the \$19,015.64 in write-offs during the same time frame in 2016.
Capital Credits	Federle reported \$2,150.37 in capital credits were paid to 4 estates during May and \$4,903.15 were paid to 3 estates during June.
Member Services Report	Routh presented the Member Services reports for May and June, 2017, concentrating on the June report. Three rebates were paid in June to members who installed Energy Star heat pump water heaters. These versatile appliances double as air conditioners in the summer by pumping out cool air. Six Shelby Energy members have now purchased a total of 23 panels at the solar farm.
New Member Survey	Routh presented the New Member Survey report for May, 2017. Of the new members who returned the survey, 100% were either satisfied or very satisfied with their experience.
Power Delivery Services Report	Stevens presented the Power Delivery Services reports for May and June, 2017.
Safety Report	Stevens presented the Safety report for June, 2017. Eight safety inspections of Shelby Energy and contractor crews occurred in June with no safety violations. There have been 41 inspections thus far this year of Shelby Energy and contractor crews with no safety violations.

Shelby Energy construction crews had worked 90,936 hours since June 1, 2016, Elliott construction crews had worked 231,608 hours since September 1, 2008, Phillips Tree Service crews had worked 75,461 hours since September 22, 2013, and Wright's Tree Service had worked 85,586 hours since July 6, 2015, all without a lost-time accident.

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Stevens discussed the 2017 Shelby Energy Safety Improvement Plan. It has five planned initiatives. The Safety Committee has initiated regularly scheduled meetings. The first several sections of the revision of the safety manual have been completed. Presentation of a “Safety Moment” prior to any Shelby Energy meeting is being encouraged. The Near Miss reporting system is being reviewed with an eye toward encouraging employee participation. Finally, Shelby Energy’s safety results will be compared each year with state and national standards through Federated Insurance.

RUS
Distribution
System
Review

Stevens discussed the results of the Operations & Maintenance survey recently conducted by Mike Norman, the RUS Field Representative. This was issued after Norman’s inspection of Shelby Energy’s system. Shelby Energy’s system was evaluated in various respects on a 0-3 scale. Shelby Energy did not have any 0s or 1s. There were two 2s with the remainder being 3s. The 2s resulted from the observation of several telephone poles left standing next to electric poles which need to be removed. The survey reports cable tv attachments require constant follow-up to be moved to new poles which would allow the old pole to be removed. Stevens noted the Engineering Load Study was recently very helpful when a tree cut by an EKPC contractor broke a cross arm on a Shelby Energy pole. Information from the study allowed Shelby Energy to back-feed and restore service to a portion of the affected area in only 20 minutes.

Operations
Report

Ginn presented the Operations reports for May and June, 2017, focusing on the June report. There have been 162 ditch inspections thus far in 2017, up from 84 during the same time frame in 2016. This is a good indicator of growth on the system and these types of inspections have continued to increase in frequency. Ginn also reviewed the 2017 System Inspection Tracking report. Fifty-two percent of the inspections scheduled for this year have been completed.

Engineering
& Outage
Report

Shovlin gave the Engineering & Outage report for June, 2017. There were 11 work orders for removal of unused distribution lines. Removing such facilities is important because Shelby Energy saves considerable money in not having to maintain the associated right-of-way.

Shovlin reported there was one large outage in June which was caused when a snake shorted out a substation. Shelby Energy’s SAIDI score for the month of June is down from April and also for the year. The CAIDA score is also down from April, but a little higher than average. Falling trees, often dead Ash trees outside the easement, are an increasing cause of outages.

CFC Forum
Report

Stratton and Routh reported on the CFC forum. The production tax credits provided by governmental entities to solar and wind power installations is causing significant disruption in the power industry in certain areas of the country. In Texas and some other states wind generation is causing the market to stay at zero pricing or go into negative pricing for electricity sales due to these tax credits. Solar generation is predicted to become increasingly disruptive because, as these technologies become mainstream

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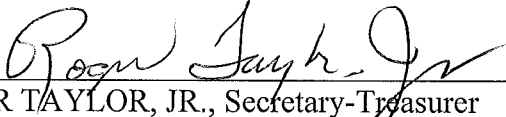
resulting in cheaper installation and operation, producers are able to push the sale of wholesale electricity lower because the tax credits subsidize the price of that electricity.

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.
Board Policy Approval	<p>Martin presented for consideration and approval the following board policies, which have been reviewed by legal counsel:</p> <p>Board Policy 109 – Attendance of Board Meeting by Members or Other Persons Board Policy 110 – Directors’ Fees Board Policy 111 – Meetings of Board of Directors Board Policy 201 – Organization Policy Board Policy 202 – Services of Consultants Board Policy 203 – Functions of Shelby Energy Attorney Board Policy 308 – Shelby Energy Credit Cards Board Policy 915 – Employee Travel and Out-of-Pocket Expenses</p> <p>After discussion concluded, the above policies were approved.</p>
Budget Amendments	Martin presented proposed amendments to the budgets for the Billing & Customer department, Finance & Cooperative Services department, and Power & Delivery Services department. After discussion concluded, upon motion duly seconded, the proposed budget amendments were approved.
NRECA Regional Voting Delegate	Martin requested the voting delegates for 2017 NRECA regional meeting be changed due to altered attendance plans. Accordingly, Chairman Chilton appointed Hargadon as Shelby Energy’s voting delegate, with Stratton to serve as alternate.
EKPC Director Report	Stratton presented the EKPC Director report. EKPC has had year-to-date margins of \$17 million through May. Lower system electricity demand is pushing out the need for additional base load generating capacity.
KAEC Director Report	Hargadon presented the KAEC Director report.
President & CEO's Report	Martin presented the President & CEO's report.

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There being no further business, the meeting was adjourned. There next regular Board meeting will be held on August 17, 2017 at 9:00 a.m.



ROGER TAYLOR, JR., Secretary-Treasurer

Approved:



ASHLEY CHILTON, Chairman