

SHELBY ENERGY COOPERATIVE, INC.
Shelbyville, Kentucky
Board of Directors' Meeting – October 26, 2017

Regular Meeting

The following persons were present at 9:00 a.m. at Shelby Energy's headquarters on October 26, 2017:

Directors:

Ashley Chilton	Chairman
Pat Hargadon	Vice Chairman
Roger Taylor	Secretary/Treasurer
Wayne Stratton	Director
Diana Arnold	Director
Jeffrey Joyce	Director

Also Present:

Debra Martin	President & CEO
Mary Federle	Manager, Billing & Customer Service
Jason Ginn	Manager, Operations
Lauren Gutermuth	Executive Assistant
Randy Stevens	SVP, Power Delivery Services
Donald Prather	Attorney

Guest:

Mike Norman	RUS Field Representative
Joe Arnold	VP, Strategic Communications, KAEC

October Board Information

Copies of the following were provided to Board Members on October 20, 2017:

1. Shelby Energy October 2017 Newsletter;
2. Agenda;
3. September 21, 2017 Minutes;
4. Strategic Goal Summary through September 30, 2017;
5. Shelby Energy USDA RUS Financial & Statistical Report for August, 2017;
6. Actual v. Budget Report for August, 2017;
7. Overtime Payroll Report Year-to-Date 7-year summary through August, 2017;
8. Exceptions Report for Expenses for August, 2017 Year-to-Date;
9. Cashflow Statement for August, 2017;
10. 12-month Rolling Statement of Operations through August, 2017;
11. Fuel Cost & Environmental Surcharge Report through August, 2017;
12. Check Register for September, 2017;
13. Propane Plus Financial Statements for September, 2017;
14. Cooperative Services Report for September, 2017;
15. Year-to-Date Self-Funded Medical Plan Cost & Benefits Status Report;

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16. Billing and Customer Service Report for September, 2017;
17. Uncollectible Accounts from July, 2017 Disconnect Dates;
18. Summary of Write-Offs – Prior Years Comparison Summary;
19. Capital Credit Estate Refunds for September, 2017;
20. New Member Survey Report for January through September, 2017;
21. Adjustment Report for July through September, 2017;
22. Member Inquiry Log for July through September, 2017;
23. PSC Inquiry Log for July through September, 2017;
24. Safety and Right-of-Way Report for August, 2017;
25. Proposed Shelby Energy and Wright Tree Services, Inc. Right-of-Way Contract Amendment;
26. 2017 Safety Improvement Plan;
27. Completed On-Site RESAP Observation Assessment Summary;
28. Engineering Report for September, 2017;
29. Outage Report for September, 2017;
30. Right-of-Way Bidding for 2018-2019;
31. Operations Report for September, 2017;
32. Year-to-Date System Tracking Inspection Report;
33. EKPC October 10, 2017 Board Meeting Agenda;
34. EKPC Financial Review as of August, 2017;
35. KAEC October 10, 2017 Board/Committee Meeting Notices and Agenda;
36. KAEC September 19, 2017 Board Meeting Minutes;
37. KAEC Financial Review as of September, 2017;
38. KAEC 2018 Preliminary Budget;
39. CFC October 3-5, 2017 Board Meeting Report; and
40. CFC October 2, 2017 Board Meeting Report.

Copies of the following were provided to Board members on October 23, 2017:

1. KAEC October 17, 2017 Board Meeting Key Points;
2. Board Policy No. 927 – Whistleblower Policy;
3. Board Policy No. 928 – Records Management Policy;
4. Board Policy No. 929 – Employment Verification and References;
5. Board Policy No. 933 – Harassment in the Workplace; and
6. Board Policy No. 934 – Opt-Out Plan for Major Medical Insurance.

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

Safety Moment The Safety Moment was presented by Ginn. Shelby Energy crews change the batteries in their voltage detectors each fall and spring with the daylight savings time change. Ginn suggested this was a good way for homeowners to remember to change the batteries in their smoke detectors.

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2018 – 2021 Construction Work Plan Loan Mike Norman, the RUS Field Representative, discussed Shelby Energy’s loan application to be used to fund its 2018 – 2021 Construction Work Plan. The loan will total \$22,319,000.00, repayable over 35 years. The interest rate will be set when the loan funds are drawn. It can either be a variable or a fixed interest rate. The loan will be from the Federal Financing Bank (“FFB”).

Norman presented two resolutions for the Board’s consideration. The first resolution approves the FFB loan application. The second resolution increases Shelby Energy’s permissible debt limit from \$100 million to \$200 million. Norman explained this debt limit increase was a formality required by RUS and there was no commitment to borrow that much money. After discussion concluded, upon motion duly seconded, both resolutions were adopted.

KAEC Information Joe Arnold, Vice President of Strategic Communications for the Kentucky Association of Electric Cooperatives (“KAEC”), discussed effective strategies for communicating with members and the public. He believes the KAEC-sponsored *Kentucky Living* magazine and the associated www.kyliving.com website are a vital part of the Kentucky electric cooperative program and a very effective way to provide information to members and the public. KAEC is also conducting training workshops for cooperative employees in the effective use of social media, as well as how to better interact with traditional news media outlets, regulatory agencies, and the general public.

He then discussed things that other Kentucky cooperatives are doing for their annual meetings. The general trend seems to be switching from night meetings to day meetings, although the majority of the cooperatives are still holding traditional night annual meetings.

Minutes The minutes of the September 21, 2017 Board of Directors meeting were approved.

Strategic Plan Review Martin presented a review of the status, as of September 30, 2017, of the current strategic goals.

Finance & Cooperative Services Report Martin presented the Finance & Cooperative Services report. Shelby Energy had positive margins of \$210,311 in September, indicating the recent rate increase is beginning to have an effect.

Shelby Energy’s year-to-date modified TIER was 0.13 and its OTIER was 0.094 for the month of August, both very low and well below the RUS minimum requirements of 1.10. Shelby Energy had 39% of its assets in equity, its Power Cost to Revenue Ratio was 75.12%, and its current ratio was 0.82. Shelby Energy’s August line loss was 1.55%, its August rolling TIER was 1.56, and its August rolling OTIER was 0.03.

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Overtime payroll through the end of August is the lowest it has been since 2013. Environmental surcharge and fuel adjustments are in an over-recovery stage.

Check Register	The Directors did not have any questions regarding the check registers for September.
Exceptions Report for Expenses	The Directors did not have any questions regarding the year-to-date Exceptions report.
Shelby Propane Plus Report	Martin presented the Shelby Propane Plus report for September. It had positive margins of \$14,289. This is down significantly from the \$71,771 in margins a year ago due to warmer weather this year.
Energy Efficiency Programs	Martin reported on the status of Shelby Energy's energy efficiency programs. There were pre-drywall visits at four Touchstone Energy home sites in September, confirming that growth is picking up.
Medical Insurance	Martin presented a status report on the cost and benefits paid under Shelby Energy's self-funded medical plan. Benefits continue exceeding plan contributions.
Billing and Customer Service Report	Federle presented the Billing and Customer Service report for September. Fifteen members began participating in the bank draft program in September. A total of \$2,270 in incentives, at \$10 per new participating member, have been paid thus far this year. Participation in the prepaid billing account program is holding steady at 662 members. The new remote payment center at Poppy's General Store in Bedford has proven to be extremely popular with members. A total of 434 members paid their bills there during its first three weeks of operation. Member usage of the remote payment centers at Riverside Produce and Henry County Supply are also up quite a bit over last year.
Write-Offs	Federle reported there were uncollectible accounts totaling \$2,208.99 from July, 2017 disconnect dates. Upon motion, duly seconded, these amounts were written off for accounting purposes. The total write-offs from January through October of 2017 are \$25,433.57; however, the net write-offs are only \$6,910.68 due to recovery of previously written-off funds.
Capital Credits	Federle reported \$3,546.26 in capital credits were paid to 3 estates during September. A total of \$50,347.98 in capital credits have been paid to estates from January through September, 2017.

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New Member Survey Federle presented the New Member Survey report for members connected in August. Of the new members who returned the survey, 100% were either satisfied or very satisfied with their experience. All 147 new members who have returned the survey thus far this year were similarly either satisfied or very satisfied with their experience.

Power Delivery Services Report Stevens presented the Power Delivery Services report for September.

Safety Report Stevens presented the Safety report for September. Eight safety inspections of Shelby Energy and contractor crews occurred in September with no safety violations.

Shelby Energy construction crews had worked 110,907 hours since June 1, 2016, Elliott construction crews had worked 237,308 hours since September 1, 2008, Phillips Tree Service crews had worked 75,911 hours since September 22, 2013, and Wright's Tree Service had worked 95,316 hours since July 6, 2015, all without a lost-time accident.

Safety Improvement Report Stevens reviewed Shelby Energy's 2017 Safety Improvement Plan. It consists of six annual safety improvement goals and seven 3-year safety improvement goals. The update of the safety manual is nearly completed. The Safety committee is now holding regularly scheduled meetings. Employees are no longer hesitant to share near-miss incidents as they are now being embraced by other employees as learning opportunities.

RESAP Inspection Report Stevens discussed the results of the unannounced on-site Rural Electric Safety Program ("RESAP") inspection. This occurs every three years. Shelby Energy's report was excellent with only a few suggestions for improvement.

Engineering & Outage Report Stevens gave the Engineering & Outage report for September. Shelby Energy's SAIDI scores for July and September were high due to substation outages. The July incident was caused by a squirrel, and the September incident was a transmission outage. Shelby Energy's CAIDI scores are all near where we want them to be. The September outage was very widespread and affected 4,366 Shelby Energy members with an average outage duration of 1.83 hours.

As expected, trees were the leading cause of outages in September. Ginn commented this is likely to get worse with the number of the dead Ash trees. It is no longer safe to climb most of them in order to trim them, so if they cannot be reached with a bucket truck, they have to be left to fall naturally. It is expected the tall Ash trees outside the right-of-way will be causing problems for several years to come.

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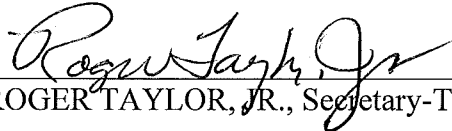
- Right-of-Way Contract** Stevens presented a proposed amendment to the Shelby Energy and Wright Tree Service's Right-of-Way Contract. The total cost for 2018 is \$1,520,695, or an average of \$5,116 per mile. The total cost for 2019 is \$1,535,178, or an average of \$4,305 per mile. The lower per-mile cost in 2019 is a reflection of the fact that Wright will begin trimming areas previously cleared under Shelby Energy's aggressive 5-year right-of-way clearing program. After discussion concluded, upon motion duly seconded, the Right-of-Way Contract amendment was approved.
- Operations Report** Ginn presented the Operations report for September. Underground electrical conduit is presently being installed in the Windhurst apartment complex. The first building may be energized by the first of November. The Six Mile Creek Distillery project is progressing nicely, with nearly all of the poles set. Nearly all of the poles have been set in Phase I of the Gest Road rebuild project. The new wire will be pulled next week.
- System Inspection** Ginn reported the annual helicopter inspection of one-half of Shelby Energy's was completed during the first week of October. Ground inspection of the other one-half of the system is approximately 75% complete.
- 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 motion duly seconded, the Board approved an exception to the vacation policy to allow Routh to carry over 48.53 hours of vacation time to 2018 since he has been unable to use it this year due to an unusually heavy work load including the rate case.
- Board Policy Approval** Martin presented for consideration and approval the following board policies, which have been reviewed by legal counsel:
- Board Policy No. 927 – Whistleblower Policy
 - Board Policy No. 928 – Records Management Policy
 - Board Policy No. 929 – Employment Verification and References
 - Board Policy No. 933 – Harassment in the Workplace
 - Board Policy No. 934 – Opt-Out Plan for Major Medical Insurance
- After discussion concluded, the above policies were approved.
- EKPC Director Report** Stratton presented the EKPC Director report. The solar farm is nearly ready to go online. EKPC is projecting margins of approximately \$35 million for 2017.
- KAEC Director Report** Hargadon presented the KAEC Director report.

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**President
& CEO's
Report**

Martin presented the President & CEO's report.

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



ROGER TAYLOR, JR., Secretary-Treasurer

Approved:



ASHLEY CHILTON, Chairman