

KIT CARSON ELECTRIC COOPERATIVE, INC.

MEETING OF THE BOARD OF TRUSTEES

November 24, 2015

A meeting of the Board of Trustees of Kit Carson Electric Cooperative, Inc. was called to order by the President, Mr. Bobby Ortega, on Tuesday, November 24, 2015 at 9:05 a.m. in the Marcelino Martinez Room of the headquarters building of the Cooperative, Taos, New Mexico. The following Trustees were present:

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| <i>Peter Adang</i> | <i>Present</i> |
| <i>Cristobal Duran</i> | |
| <i>Bruce Jassmann</i> | |
| <i>Virgil Martinez</i> | |
| <i>Ambrose Mascarenas</i> | |
| <i>Bobby Ortega</i> | |
| <i>Arthur Rodarte</i> | |
| <i>Jerry Smith</i> | |
| <i>David Torres</i> | |
| <i>Luisa Valerio-Mylet</i> | |

Also, present were: Luis A. Reyes, Jr., Chief Executive Officer, Richard Martinez, Chief Operating Officer; Carmella Suazo, Administrative Assistant; Johnny Valerio, Financial Manager; and Joyce Archuleta, Executive Secretary, who recorded the day's proceedings.

Mrs. Carmella Suazo led the Board in reciting the Pledge of Allegiance.

Mrs. Joyce Archuleta led the Board in a word of prayer.

The President announced a quorum was present and the Board was ready to proceed with the transaction of business.

The agenda was presented. It was moved by Mr. Jassmann, seconded by Mr. Smith, and unanimously approved, that the agenda be approved as presented.

The minutes for the Board of Trustees Board meeting held October 26, 2015 were presented. It was moved by Mr. Smith, seconded by Mr. Rodarte, and unanimously approved, that the minutes for October 26, 2015 be approved as presented.

The minutes for the Board of Trustees regular meeting held October 27, 2015 were presented. It was

moved by Mr. Rodarte, seconded by Mr. Jassmann, and unanimously approved, that the minutes for October 27, 2015 be approved as presented.

2015 Regular Meeting

Mr. Reyes presented the CEO's report for October 2015. Financials for October 2015 were reviewed. Margins for the month of October were at (\$187,335). Year to date margins were at (\$845,788). Mr. Reyes reported that revenue continues to be stagnant and cost of power continues to increase. He reported operating costs were lower than last year. Mr. Reyes reported Administrative and General Expenses were higher due to legal fees relative to professional services regarding Tri-State activity tied to power supply. Mr. Adang reported that KCEC is being accused of having millions of dollars in attorney fees. Mr. Reyes reported that KCEC is a corporation and has to be represented by legal counsel. Mr. Reyes reported that in 2010 KCEC had 98 full time employees and in 2015 KCEC has 90 full time employees. KCEC has decreased the employee work force to the right size. Mr. Reyes reported that KCEC is doing everything operationally to keep expenses down. He reported that internal expenses have been managed and that tree trimming continues to be the highest cost maintenance item. Discussion was held on the District offices. Mr. Martinez was concerned because of the investment in the District 2 office and that the office was only open one day out of the week, Mr. Smith reported that the offices in District 5 and District 3 also closed since KCEC could not justify keeping them open. Mr. Martinez reported for the record he doesn't care if KCEC closes the District 2 office, but the people in District 2 care. Mr. Duran agreed with Mr. Smith. Mr. Rodarte reported that the District 3 office was closed due to not enough activity however; it was a good investment because Kit Carson Propane has their propane storage tanks on the property and trucks can be filled at that location. Mr. Rodarte asked if a vegetation plan for fire prevention needed to be filed every year with the NMPRC. Mr. Reyes reported it needs to be filed any time there is an upgrade in major permits. Mr. Rodarte reported on the approval of the long term financial forecast at the last Tri-State meeting, in 2016 the average cost to members would be .73.32 and in 2017 it would go to .77.85, 2018 it would go to .80.92 then stays stable until 2022 then it would go to .82.23 so staying with Tri-State would be a further increase in power which affects KCEC's bottom line. Discussion was held on the impact of cost savings and service if employees were laid off. Mr. Adang stated 40 employees would have to be laid off to reach \$3.5 million. He reported after reviewing the chart that was sent out with the proposed rate increase, out of 17 cooperatives in New Mexico and southern Colorado, 12

CEO Report

of the cooperatives are at \$20.00 or above so \$20.50 is not out of line and the cost of electricity is increasing. Mr. Mascarenas stated that if there were to be a cut in employees the employees left would be burdened and overworked. Mr. Reyes reported that operationally from a management perspective the management team and the employees are doing what needs to be done to control costs. Mr. Reyes reported that total operation and maintenance expense has decreased. The Balance sheet was reviewed. Mr. Reyes reported new services connected last year were 227 compared to this year at 204. He reported plant continues to grow, has grown by five miles. Mr. Reyes reported long term debt was at \$78,273,634 which includes solar and buy in to Tri-State. Total assets and liabilities were at \$134,226,339. Mr. Torres reported the Safety Committee met November 12, 2015. Mr. Torres reported KCEC was at 19 days with no loss time accidents as of November 10, 2015. Mr. Martinez stated that there are places that need locks on gates to secure property. Mr. Ortega reported this was an operational issue and asked Mr. Richard Martinez to look into this. The Safety Report is included in the Board packet for review. Following discussion it was moved by Mr. Jassmann, seconded by Mr. Mascarenas, and unanimously approved, that the CEO report for October 2015 be approved as presented. A copy of the CEO report is included in the Transfer of Documents and is hereby made a part of the minutes of this meeting.

The President reported requests have been received from Estates for retirement of capital credits. It was moved by Mr. Jassmann, seconded by Mr. Rodarte, and unanimously approved, that payments to these Estates in the amount of \$8,746.15 be approved as presented with the provision that such payment would not impair the financial condition of the Cooperative and that any balance owed would be paid in the future after approval of the Board.

Capital Credits
To Estates

The President reported donation totals and correspondence are in the packet and may be reviewed at leisure.

Donations &
Correspondence

Mr. Jassmann presented Payables for the Electric and Internet Divisions. The Payables Committee met on November 13, 2015. Mr. Jassmann recommended approval. It was moved by Mr. Rodarte, seconded by Mr. Mascarenas, and unanimously approved, that the payables for October 2015 be accepted as presented.

Payables
Committee

Mr. Smith reported that the 2015 NMRECA Meeting was held November 3 & 4, 2015. Mr. Smith reported discussion was held on Mr. Groenewold's

NMRECA
Board Meeting

appraisal which was discussed in Executive Session and the whole Board participated. Mr. Smith reported the next NMRECA meetings would be held on December 4 & 5, 2015.

Mr. Rodarte reported he attended the Tri-State Board Meeting held November 10 & 11, 2015. Mr. Rodarte handed out for review a brochure that was developed by Tri-State to provide to Wall Street at the time they have a request to borrow money. Mr. Rodarte reported discussion was held on the Las Conchas fire trial. Tri-State was named in a lawsuit related to the fire, which started when a tree fell into a Jemez Mountains Electric Cooperative line, because Tri-State is MEC's power supplier and the plaintiffs claimed Tri-State and JMEC operate as a joint venture or enterprise. The jury found Jemez Mountain Electric 75% negligent and Tri-State 20% negligent and the U.S. Forest Service 5% negligent in the fire. Tri-State was disappointed with the negligence decision, but maintains it has a strong legal position in the case and grounds for an appeal exist. He stated that the protest period for the cooperatives in New Mexico was over and the A39 rate would go into effect in January 2016. Mr. Rodarte reported that discussion was held on a book written by Ted Koppel, Lights Out and Tri-State critiqued the book and found that what Ted Koppel reported on Tri-State was false information. Tri-State will rebuttal parts of the book. Mr. Rodarte reported year to date margins were at \$74 million. Mr. Rodarte reported that at the next meeting discussion would be held on the capital credit retirement which would probably be \$10 million. Mr. Rodarte reported the next Tri-State meetings would be held on December 2 & 3, 2015.

Mr. Reyes provided an update on the Broadband Project. He reported that crews continue to move into the Taos, Penasco and Ojo Caliente areas.

The President called for a recess at 10:00 a.m. Mr. Martinez left the meeting at 10:04 a.m.

Meeting was reconvened by the order of the President at 10:10 a.m.

Mr. Adang reported that the By-law and Policy Committee met on November 13, 2015. The By-Law and Policy Committee's recommendations are as follows.

Policy No. 2.24 – Records Management, Retention and Destruction was presented with no changes. The Board is reminded that each trustee and employee is required to sign a copy of the Record Retention and Disposal Acknowledgement attached as Appendix I; and, that there

is to be annual training for persons required to comply with the policy (this includes trustees). In addition, the Retention Schedule attached as Appendix II should be reviewed for possible updating. It was moved by Mr. Smith, seconded by Mr. Jassmann, and unanimously approved that Policy No. 2.24 be approved as presented. The President requested the By-Law and Policy Committee research an Emergency Disaster Policy.

Policy No. 2.25 – Interconnection of Distributive Resources up to 10 MW was presented with no changes.

Policy No. 2.34 – Purchases through Competitive Bidding was presented with format changes to comply with Policy No. 1.17.

Policy No. 3.1 – Equal Employment Opportunity and Affirmative Action plan was presented with format changes to comply with Policy No. 1.17 and the language has been updated (e.g. “General Manager” to Chief Executive Officer”).

Policy No. 3.2 – Employee practices was presented with format changes to comply with Policy No. 1.17 and language has been updated.

It was moved by Mr. Duran, seconded by Mr. Jassmann, and unanimously approved that Policy No. 2.25, Policy No. 2.34, Policy No. 3.1 and Policy No. 3.2 be approved with changes.

Policy No. 3.3 – Employee Relations was presented with format changes to comply with Policy No. 1.17 and language has been updated (e.g., limitation to three numbers has been eliminated). Substantive changes are to make the CEO performance and salary plan reviews from semi-annual to annual to conform to current practice. Also, overall wage and salary plan should be reviewed and updated as necessary. It was moved by Mr. Jassmann, seconded by Mr. Smith, and unanimously approved that Policy No. 3.3 be approved with changes.

Policy No. 3.4 – Wages and Hours of Employment was presented with format changes to comply with Policy No. 1.17.

Policy No. 3.5 – Anti Nepotism was presented with several changes to the policy relative to KCEC and KCT. KCEC Attorney also recommended changes.

Policy No. 3.6 – Sick Leave was presented with format changes to comply with Policy No. 1.17 and superfluous language in the second paragraph was deleted.

Policy No. 3.7 – Vacations was presented with format changes to comply with Policy No. 1.17 and remove superfluous language dating back to 2000 when the policy was adopted.

It was moved by Mr. Jassmann, seconded by Mr. Rodarte, and unanimously approved that Policy No. 3.4, Policy No. 3.5, Policy No. 3.6 and Policy No. 3.7 be approved with changes.

Policy No. 3.8 – Emergency Leaves and Deaths was

presented with format changes to comply with Policy No. 1.17. The number of leave days allowable was changed from "four (4) days immediately following the date of death" to five (5) days within the twenty-one days following the date of death. It was moved by Mr. Jassmann, seconded by Mr. Duran, and unanimously approved that Policy No. 3.8 be approved with changes.

Policy No. 3.9 – Leave of Absence was presented with format changes to comply with Policy No. 1.17. In addition, all of the language after the first paragraph (relative to employees working as consultants to foreign rural electric cooperatives) was eliminated since no one on the committee knew of it ever being used. It was moved by Mr. Jassmann, seconded by Mr. Rodarte, and unanimously approved that Policy No. 3.9 be approved with changes.

Policy No. 3.11 – Holidays was presented with format changes to comply with Policy No. 1.17.

Policy No. 3.12 – Travel – Employees was presented with format changes to comply with Policy No. 1.17. In addition the meal allowances shown on page 1 were eliminated and an "IRS Regulations" reference substituted.

Policy No. 2.23 – Credit Card Use was approved at the October Board Meeting; however, a deletion of credit limit is being proposed.

It was moved by Mr. Rodarte, seconded by Mr. Jassmann, and unanimously approved that Policy No. 3.11, Policy No. 3.12, and Policy No. 2.23 be approved with changes.

Mr. Adang reported that 47 policies have been reviewed and that 44 policies have been approved and three policies have been tabled. He reported that by the January 2016 Board meeting all policies should be reviewed and approved.

It was moved by Mr. Smith, seconded by Mr. Executive Jassmann, and approved, that the Board go into Session Executive Session at 10:16 a.m. Mr. Martinez opposed Executive Session and left the meeting.

Meeting was reconvened at 10:49 a.m. No Meeting action taken. Reconvened

There being no further business to come Meeting before the Board, it was moved by Mr. Rodarte, seconded Adjourned by Mr. Jassmann, and unanimously approved, that the Board of Trustees of Kit Carson Electric Cooperative, Inc. be adjourned until December 29, 2015 at 9:00 a.m. the date and time of the next Board meeting. Unless changed and, thereupon, the President declared the meeting adjourned at 10:50 a.m.

November 24, 2015 Meeting of the Board of Trustees

The following Trustees were present at the end of the meeting:

Peter Adang, Cristobal Duran, Bruce Jassmann, Ambrose Mascarenas, Bobby Ortega, Arthur Rodarte, Jerry Smith, David Torres and Luisa Valerio-Mylet.


Secretary

Approved this 29 day of December, 2015


President