

**17TH ANNUAL MEETING OF THE MEMBERS
OF THE
KAUAI ISLAND UTILITY COOPERATIVE**

Held at the Kauai War Memorial Convention Hall

Lihu'e, Kaua'i, Hawai'i

July 31, 2019

MINUTES

1. Call to order and roll call.

1.1 The meeting was called to order at 6:00 p.m.

1.2 **Directors Present:** Allan Smith (Chair), Dee Crowell, David Iha, Janet Kass, James Mayfield, Calvin Murashige (Secretary), Teofilo Tacbian, Jan TenBruggencate (Vice Chair), and Peter Yukimura (Treasurer).

1.3 **In attendance:** David Bissell (CEO & President); Karissa Jonas (CFO & Financial VP), and General Counsel Laurel Loo; KIUC Members (250 approximately); and numerous KIUC staff

2. **Welcome** – Board Chair Allan Smith thanked Kupaoa for their music before to the meeting. Each director of the KIUC Board was introduced. CEO David Bissell, CFO Karissa Jonas and General Counsel Laurel Loo who were also seated on stage were introduced. Special guests were recognized including Representative Dee Morikawa, Governor Liaison Carrice Gardner, Mayor Derek Kawakami, County Council Member Felicia Cowden, former Mayor and County Council Member Joanne Yukimura; and former KIUC Directors Dennis Esaki and Ben Sullivan.

3. **Pledge of Allegiance** – Led by Chair Smith.

4. **Hawaii Pono'i** – Kupaoa.

CEO Bissell spoke about last week's island wide outage. Everything is back in service. This is the first time we had to use rolling blackouts in order to manage the grid. It is a reminder that we are working to be 100% renewable. A big mahalo for all the support.

5. Approval of Minutes.

5.1 A motion by Director Mayfield seconded by Director Murashige to approve the minutes of the July 25, 2018 Annual Meeting of the Members carried.

6. Chair Smith stated that every year KIUC sponsors four High School Juniors to travel to our Nation's Capital on an educational trip of a lifetime. Youth Tour participants apply, and are selected based on their achievements, essays, and interview performance. The Youth Tour Program brings kids from electric cooperatives all over the country to Washington DC to learn about how our government works and to learn about how cooperatives work.

- 6.1 This year's Youth Tour Delegates are with us tonight; Kaitlyn 'Katie' Cook from Island School, Tia Fulks from Kauai High School, Kasiah Vercelli from Kapaa High School and Kallen Wachi from Waimea High School.

7. **Annual Report.**

7.1 **Chair, Allan Smith**

- 7.1.1 As your elected Board, we appreciate this opportunity to interact with you and share the work that has been done over the past year on behalf of our member-owners. My fellow Board members are going to share in the presentation again this year.
- 7.1.2 Chair Smith is very honored to serve with each of these Board members...and does not believe the members could be any better represented. Each of these individuals is 100 percent committed to the task of representing the members...and is highly knowledgeable about matters concerning your cooperative.
- 7.1.3 KIUC Annual Presentation was displayed and focused mostly on the highlights from the 2018 calendar year.

7.2 **Director Dee Crowell**

- 7.2.1 A number of exciting things happened for KIUC in 2018. Many of them related to our renewable projects, and the progress we are making in that area.
- 7.2.2 A map was shown of the locations of all of our existing and proposed renewable projects.
- 7.2.3 It is notable that our renewables are located in every area of the island; including hydro, biomass and solar.
- 7.2.4 Every one of our communities are contributing to our renewable present and future.
- 7.2.5 The Board of Directors has set an aggressive goal of reaching 70 percent renewable by the year 2030.
- 7.2.6 With the progress we're making, we expect to reach that goal at least five years early.
- 7.2.7 We're also operating under a state mandate to reach 100 percent renewable by the year 2045. So we have to move forward and we are making great progress.
- 7.2.8 In 2018, KIUC reached a total of 43.5 percent renewable. As of today, just seven months later, KIUC is generating more than half of its power from renewable sources.
- 7.2.9 A slide showed the various components that make up our renewable mix, and how that has changed over the past nine years.
- 7.2.10 In 2010, KIUC had less than eight percent renewable generation, and it was all from hydro.
- 7.2.11 We started seeing significant amounts of solar beginning in 2013, and now solar is by far the largest piece of KIUC's renewable energy mix.

7.2.12 In 2016, KIUC started receiving power from the Green Energy Biomass plant, which rounds out the spectrum of renewable resources that make up our renewable portfolio.

7.3 **Director David Iha**

7.3.1 KIUC has made incredible strides since 2010.

7.3.2 A slide showed KIUC's newest source of renewable: the AES Lawai 20 megawatt dispatchable solar project.

(a) This facility was completed in late 2018 and went into commercial operation earlier this year.

(b) The AES facility comes with a battery system which can store five hours of energy production to be used during our peak generating times in the evening.

(c) It is the largest dispatchable solar plant currently in operation in the world, and provides about 10% of our electricity.

(d) This plant, along with the Tesla solar plus storage facility in Kapaia, now produce 40 percent of our night time peak energy from daytime sunlight.

7.3.3 Reviewed a graph that showed what KIUC's daily "dispatch" looks like, in 30 minute increments from midnight to midnight, how many megawatts of power are being generated at any given time, and what power sources are fueling us.

(a) It also showed that hydro power and biomass sources are important because they produce power consistently throughout the day and night.

(b) Diesel is the fossil fuel portion we are working hard to eliminate.

(c) Direct-to-grid solar contributes heavily during daylight hours.

(d) Stored solar power is dispatched as it is needed or available.

(e) With the Tesla and AES plants, our evening peak is now being shaved with stored solar energy.

7.3.4 A graph was shown from just a few days earlier which was a rainy day with virtually no sun. It showed how dramatically the production of our solar facilities drops off. Even our battery storage systems produce very little on a day like this. This graph is a good illustration of how difficult this renewable puzzle will be to solve, and how important it is for us not to rely on any one technology in order to achieve our renewable energy goals. Solar alone will not get us there.

7.4 **Vice Chair, Jan TenBruggencate**

7.4.1 KIUC has a second project with AES which is under construction at PMRF. It's another solar plus storage plant, like the one just completed in Lawai.

(a) This project will be provide the island with about 7 percent more renewable energy when completed in 2020.

(b) The project is unique in that it will help the energy security of the base by allowing the base to be "islanded" and operate solely off the

- batteries if there is a grid disruption or if they are conducting certain operations.
- (c) Otherwise all energy produced will go to KIUC's grid and serve the entire island.
 - (d) Once this project is complete in mid-2020, we will be able to generate roughly 65 percent of our peak evening energy needs from stored solar.
- 7.4.2 KIUC is also moving forward with development of the West Side Renewable Energy Project, which will use PV, hydropower, and pumped storage to generate another 15 percent of renewable energy.
- (a) The project will provide water for agriculture to the Kekaha Agriculture Association and will provide water and electrical service to the Department of Hawaiian Homelands, which will open up land for new agricultural homesteads.
 - (b) We have an engineering firm working on designing the project now and we expect to have 30% engineering done by late summer. Later in the year we will be filing our Environmental Impact Statement with the state.
 - (c) Much work remains to be done. But, upon completion of the pumped storage hydro project we will be approaching 80% renewable which will exceed the KIUC board of director's latest strategic target of 70 percent by 2030.
- 7.4.3 KIUC continues our efforts on obtaining a long term lease on the east side to keep our Waiahi Hydro plants in productive use.
- (a) These hydros are relatively small, but are historically our least cost source of energy...and displace almost 700,000 gallons of diesel use annually. They are also 100-year-old historic resources, testaments to one of our island's earliest renewable energy projects.
 - (b) Last week we filed our Environmental Assessment for those projects with the State Department of Land and Natural Resources. Depending on how long it takes DLNR to review the EA, we anticipate the document will be filed with the Office of Environmental Quality Control and should be open for public comment sometime in September.
 - (c) In addition to the EA, we've fulfilled other requirements for the lease application, such as collaborating with various agencies like the Office of Conservation and Coastal and Lands, and at this point it is in the hands of DLNR to act or to provide us additional direction.
- 7.4.4 Three videos were shared of the diversion at North Fork Wailua, taken just two weeks ago. This was on a day with little to no rain, and you can see how much water is flowing past the diversion, even when it's not raining.
- (a) This first video starts by looking up toward Waialeale. Some of the water flows to the left into the ditch, and then it pans right to show you what's flowing downstream from the diversion.

- (b) The next video starts with a shot in the ditch about 100 feet downstream from the diversion at what's called the headgate. The headgate will limit the amount of water flowing further down the ditch by kicking it back toward what's called the sluice gate. The water kicks back here and enters the sluice gate to the right, where it will be re-deposited into the stream about 100 feet below the diversion.
 - (c) In the last video, water is rushing from the right side of the screen back into the river. This is the flow that's coming out of the sluice gate that you saw in the second video.
- 7.4.5 Several years ago, this board promised to keep water flowing mauka to makai in Wailua River, even in the driest times. What this illustrates is the mauka to makai flow that has been restored. The work we've done so far is an interim measure. When we obtain our long term lease, we will redesign the diversion so that it always releases the required amount of water.
- 7.4.6 Until we have the long term lease we can't make those alterations in the stream. We'll continue to manage our intake in this manner with the approval and guidance of DLNR and the Commission on Water Resources Management.

7.5 Director Teofilo Tachian

- 7.5.1 KIUC is committed to providing you with reliable power 24 hours a day. Even though we had issues with the recent Kapaia outage, our reliability statistics in recent years have been very good.
- 7.5.2 A chart was shown with KIUC's reliability for 2018, which leads the state. KIUC averaged 1.83 outage hours per customer for the year. Lower than all the other islands. This is really a testament to our engineers and operations staff who operate and maintain our system. We are finding that our battery systems are also helping improve reliability and prevent certain types of outages.
- 7.5.1 KIUC has incorporated a great deal of cutting edge generation technology while maintaining and even improving our reliability.
- 7.5.2 Resiliency - All the utilities in Hawaii are exposed to natural disasters. Clearly Kauai has been through multiple hurricanes in the past, and remains exposed to more in the future, along with other potential disasters such as tsunamis or flooding.
- (a) We have hardened our grid after Iniki but of course more work needs to be done. We have recently signed a mutual aid agreement with HECO to be sure that we can rapidly help each other in a disaster. KIUC also has access to help from cooperatives all over the country.
 - (b) We continue to participate in training available through the County, and we also run our own disaster exercises, to be as prepared as possible for any event that might occur.
 - (c) As a cooperative, we are eligible for FEMA aid in the event of a disaster that investor owned utilities are not eligible for. We have

or will be receiving aid for both the 2018 floods and for Hurricane Lane related costs.

- (d) We've already received reimbursement of more than \$38,000 for expenses related to Hurricane Lane last year.
- (e) We continue to work with FEMA on reimbursement for the April 2018 floods.
- (f) Overall, we can receive reimbursement for up to 75 percent of eligible costs.

7.6 **Director Calvin Murashige**

7.6.1 Rates - When KIUC was formed as a cooperative, our rates were significantly higher than the other islands, most notably when compared to Oahu and Maui where we were 72 percent and 43 percent higher. Fast forwarding to 2019, our rates are only 8.5 percent higher than Oahu and our rates are lower than both Maui and Hawaii Island.

- (a) Keep in mind that size matters in the utility business where larger scale is almost always cheaper. Oahu is almost 10 times our size and burns low cost coal for 20 percent of their energy supply, and we are fast approaching rate parity with them.

7.6.2 A slide showed that a small, nimble cooperative, focusing on controlling costs and bringing on renewable energy, can make incredible progress.

7.6.3 KIUC has not had a general rate increase since 2009 and we do not expect to be filing one this year or next. We also anticipate rates remaining stable at about the same as this year. Part of the reason for this is the substitution of lower cost renewables in place of higher cost diesel. For example in 2018 the cost savings from the power purchase agreement we have with Tesla, versus the amount we would have paid for diesel, was \$708,000.

7.6.1 We expect that savings to be substantially higher in 2019 when we factor in the AES contract, which is even lower than Tesla.

7.6.2 I chart was shown on how energy rates have stabilized as our renewable sourced energy has increased. It shows how much renewable percentage we've achieved, and where our average rate as reported by the Public Utilities Commission has been for each year.

7.6.3 As we increase our renewables and reduce our dependence on diesel, we minimize the swings in rates that can happen on a monthly basis. The more stable your rates are the better you can plan and manage your budget. Also, we continue to replace high-priced diesel with lower cost renewables, which puts a downward pressure on rates.

8. **Financial Report.**

8.1 **Financial Results – Director Janet Kass**

8.1.1 KIUC continues to be a financially healthy company:

- (a) Consistently makes a small amount of margins – or what you might call “profits” in an investor owned utility.
- (b) Earns enough money to continue to be credit worthy.
- (c) Puts its own skin in the game by reinvesting its margins.

- 8.1.2 When a cooperative earns a margin in a year, it can either retain that money and reinvest it in the business, or it can return that money to its members. KIUC likes to do some of each.
- 8.1.3 Our lenders, however, have loaned us a lot of money, and they want to make sure that we don't do things that would be imprudent, and could put future loan payments at risk. So they require us to "put some skin in the game" by earning money each year and reinvesting at least some of that money each year. Our lenders have a couple of quantitative ways for measuring our financial prudence.
- 8.1.4 A graph was shown of one of those measures. Debt Service Coverage is the ratio that compares of the amount of money we make in a year to the principal and interest that we owe on our debt for that year. When the ratio is bigger than 1, it means we have some money left over, after paying principal and interest. So, in general, the bigger this ratio is, the healthier we are as a company.
- 8.1.5 We've promised our lenders that we will always earn at least 25% more than we pay them in principal and interest each year. When that is in the case, our Debt Service Coverage is at least as high as 1.25. As you can see, KIUC has consistently earned a DSC of more than 1.25.
- 8.1.6 Hence, our lenders are satisfied, at least by this measure, that we are being financial prudent.
- 8.1.7 KIUC's equity is the amount of money it has earned over its entire life, which it has reinvested in the company. At the end of 2018, KIUC's equity was \$115.6 million.
- (a) A graph was shown where equity was divided by KIUC's assets. Another graph was shown where it is better for the number to be bigger. That is, the higher KIUC's equity ratio is, the healthier KIUC is financially.
 - (b) But every company needs to balance two things: (1) being financially healthy and (2) giving profits back to a company's owners.
 - (c) If we reinvest all of the money that we make each year, we would never return any money back to our members. So, we have promised our lenders to maintain a certain equity ratio.
 - (d) As long as we have an equity ratio of 20 percent, we can return some money to our members. If our equity ratio is at least 30%, we can return even more to our members.
 - (e) Each year, your Board makes the decision of how to balance financial health of the company with returning money to our members. We prefer to maintain an equity ratio of at least 30%, which allows us the most flexibility in making a decision on retiring patronage capital.

8.2 **Director Peter Yukimura**

- 8.2.1 We have successfully refinanced much of our debt in order to take advantage of low interest rates over the last several years. Because we're a cooperative, we have access to low cost capital through the Rural Utilities Service and the Cooperative Finance Corporation.
- 8.2.2 A chart was shown on how we have dramatically lowered our weighed average cost of debt from more than 4 percent when the cooperative was formed, to below 3 percent today.
- 8.2.3 We are in a very capital intensive industry and we have about 200 million dollars in long term debt, so this rate reduction has been very helpful financially.
- 8.2.4 We also have rather dramatically lowered our employee count by utilizing technology and process improvements.
 - (a) The Board would like to acknowledge our KIUC employees for their hard work and dedication. Controlling employee expenses helps us keep costs and rates as low as possible for our members. To do that, while at the same time improving reliability and "greening" our grid, is a big accomplishment.
- 8.2.5 One of the best things that happened in 2018 was that our financial results were so strong, your Board of Directors decided to retire a significant amount of patronage capital back to our members.
 - (a) Patronage capital credits come from the money a cooperative has left over, called margins, after paying all of its expenses in a given year. At the end of the year, the margins are allocated and credited to each member's patronage capital account according to the amount paid for energy used. When KIUC's finances permit, that money is returned to members in the form of patronage capital retirements.
 - (b) In total, we were able to retire \$2.5 million back to our members this year.
 - (c) You may have already received your patronage capital retirement either as a bill credit or in the form of a check.
 - (d) Since KIUC was established...we've been able to return 40 million dollars to our members.
 - (e) This is one of the fundamental benefits of KIUC being a member-owned cooperative.

9. **Strategic Plan.**

9.1 **Director James Mayfield**

- 9.1.1 Director Mayfield provided a progress report on the Board's Strategic Plan, which was adopted in January of 2017 after several months of public outreach and Board discussion.
- 9.1.2 If members haven't read the Strategic Plan, he encouraged they to go to the KIUC website and do so. It is a solid roadmap and reflects the feedback we received from our member owners.

- 9.1.3 The Board recently reviewed the plan and created a progress report, which is available on line.
- 9.1.4 Discussed a few items that were identified in the progress report:
- (a) Renewable generation: The Board's original goal in 2008 was to reach 50 percent renewable by 2023. Well, we reached that last year when the AES Plant was completed, a full five years early. Our current renewable goal is 70 percent by 2030. With the addition of the AES PMRF and the West Kauai Energy Project, this should bring us to 80 percent by 2025. Five years ahead of the current goal.
 - (b) Reliability factor was discussed earlier, and how KIUC led the state in reliability last year. The Strategic Goal was to maintain a reliability factor of 99.96, which translates to 3.5 average outage hours per customer. Last year, we cut that amount in half.
 - (c) Another Strategic Goal is to maintain financial stability. Again, you heard my colleagues talk earlier about the positive financial results and trends in rate stability, debt service, equity, and management of fixed costs such as personnel. We are definitely on track here.
 - (d) Finally he mentioned our Strategic Goal of addressing climate change. With all of the renewable projects we've deployed since 2010, we've reduced our fossil fuel consumption by nearly 20 million gallons per year.
 - (e) There's a lot more to the Strategic Plan and he encouraged members to take a look at it on-line.
- 9.1.5 Co-op Connections program - Just by being a member of KIUC, you have access to thousands of discounts at businesses on Kauai and around the nation; on restaurants, activities, retail stores, hotels, rental cars and many other things.
- (a) This program is FREE to you as a coop member.
 - (b) All you have to do is go to the Co-op Connections website, www.connections.coop, to sign up and start receiving your discounts. And if you have a smart phone, you can download the app and see all the deals that are available to you wherever you are.
 - (a) KIUC staff will be happy to assist you in signing up for Co-op Connections.

Mayor Derek Kawakami thanked the Board of Directors and the hard working employees of KIUC. Thank you for your service and our partnership. He discussed the recent island wide power outage that occurred last week. The amount of work to run the utility is very much appreciated. When we look at all the details during the island wide outage, it serves as a reminder to us, the importance of having a diversified renewable portfolio is so important. He mentioned that with coop connections, you do not have to be a member to get the savings. He was a KIUC Board of Director in 2006, and the numbers were switched. KIUC has done tremendous work and we look forward to working with KIUC.

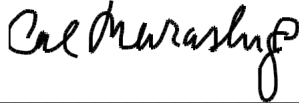
10. **Door Prizes.**

10.1 Door Prizes were given out.

11. **Questions & Public Testimony.**

11.1 Questions were received from members and general discussion followed. Oral testimony was received from Sarah Styal, Mark Perriello, Jackie Kanna, Richard Jose, Dennis Esaki, Marj Dente, Allan Rachap and Sharon Goodwin.

12. **Adjournment.** The meeting adjourned at 7:31 p.m.



Calvin Murashige
2020 Board Secretary