Good morning and welcome to CPI’s 78th Annual Meeting. We’ve had an eventful year since our last Annual Meeting. However, I’m very pleased to say one thing that hasn’t changed is our employees’ commitment to safety. As of today we have exceeded three years without a lost time accident, which is a first in our co-op’s long history. We expect that achievement to continue well into the future so long as we view safety one day at a time and focus on our safety training on each and every job. I consider this to be our company’s greatest accomplishment.

Electricity sales for this year are looking more normal than for recent years. Sitting here on a warm summer day, it may surprise you to know that this past winter was CPI’s third coldest winter in 35 years, at least as measured by heating degree days. Although the temperature generally didn’t fall very far below freezing, it hovered around freezing for several weeks. Summertime sales have also been better than normal as CPI set an all-time summer peak demand of 76 megawatts during the triple-digit heat wave in early August. For reference, that compares to our highest system peak of 119 megawatts set in December 2009.

To manage all of that electricity, decades ago CPI and more than a dozen other northwest cooperatives formed a Generation and Transmission cooperative, appropriately named Pacific Northwest Generating Cooperative or better known as PNGC Power, headquartered in Portland. PNGC’s CEO, Beth Looney, is here with us today. I’ll talk a little more about PNGC in a moment, but right now I’m going to talk about recent developments at the Bonneville Power Administration, which provides most of the power that keeps our lights on.

**Power rates**

Every two years BPA conducts a rate case, which is a formal process to set wholesale power rates for CPI and BPA’s 142 consumer-owned electric utility customers throughout the Northwest. When BPA’s current rate case ended at the end of July, BPA announced that wholesale power rates will increase by 5.4% on average beginning October 1, 2017. This rate increase is due to three main factors: 1) lower-than-expected demand for power, 2) declining expected revenues from surplus power sales due to lower wholesale market prices, and 3) increased BPA program costs driven by legal requirements. Unfortunately, all three of these factors appear to be long term trends in the Northwest.

As you would expect, wholesale power costs are CPI’s largest single expense by far, accounting for about 60% of our operating costs, which means that CPI needs to collect an additional 60¢ for every dollar of increased wholesale power costs just to stay even on a financial basis. After reviewing forecasted power costs and other expenses, CPI’s monthly residential basic service charge will increase by $3.50 effective with the November billings, which results in a 3.3% monthly increase for an average residential member.

Additionally, BPA announced a new surcharge starting in 2018 to recover costs incurred by spilling more water over federal dams in an effort to help endangered fish as required by a recent U.S. District Court ruling on a lawsuit filed by the State of Oregon and other plaintiffs. BPA estimates the cost of the new spill order at $40 million annually. We estimate CPI’s share of this new cost at $2 per month per member from April through September, the effective time frame of the spill order. CPI will implement a similar surcharge to cover this cost as a separate line item on monthly bills labeled “Oregon Spill Surcharge.”
**Long Term Outlook**

Historically, our access to BPA’s low power rates have made us the envy of the entire nation. However, in recent years plentiful supplies of natural gas produced by advanced extraction techniques in combination with lower regional power demand have resulted in sudden and unexpected competition for BPA by way of wholesale market prices that are roughly half those of BPA. Even more troubling is that BPA’s costs continue to rise every two years while market prices don’t.

BPA and its consumer owned utility customers share growing concern over this predicament because our 20-year wholesale power contracts expire in 2028. While that may sound like a long time in the future, utilities are already considering their long term resource options well in advance of the next round of BPA contract offerings, and those options look pretty attractive.

So this set of circumstances raises a lot of important questions for us to consider. Will attractively priced resource alternatives lure some utility loads away from BPA? If so, how will that impact utilities who rely on BPA for all of their power supply needs? Are new large natural gas supplies here to stay or will they vanish as a result of some disruptive physical or political force? Will changes in climate harm northwest hydro production on a long term basis? Will some new technology appear on the scene that makes traditional generation methods unaffordable? Our list of questions seems endless.

The biggest drivers of our resource decisions are risk and cost, and there is an entire universe of both. How do we make wise resource decisions, knowing that the consequences of our choices, both positive and negative, will impact us for years to come? Fortunately, we are not alone.

As I mentioned earlier, CPI and a group of northwest electric cooperatives banded together to form PNGC Power in 1975 to help us make smart resource decisions and address a host of other important electric industry issues through the years. Some of you probably remember the painful issues in the ’70s that gave birth to PNGC: a national and global energy crisis, skyrocketing energy costs and inflation, and expensive power plants that were started but not completed, just to name a few. That’s what co-ops do when times get hard and difficult decisions must be made: we band together, because we know there is relative strength and safety in numbers, and collective wisdom makes for better decisions.

PNGC has grown to become BPA’s fourth largest customer. Not only has PNGC delivered decades of high value services to CPI and its other member cooperatives, but all of BPA’s customers have benefited as well through PNGC’s participation in BPA rate and policy processes and a host of other northwest energy forums. PNGC and its 14 member cooperatives are poised to benefit even more from the foresight that our leaders had when it was formed to address power supply challenges like the ones we face in the coming years.

**CPI’s Energy Future**

As a distribution utility our primary job is to deliver electricity to power our homes and businesses and, naturally, we spend a lot of time thinking and talking about our future power supply. For the past 78 years and for the foreseeable future we have had the great fortune of a robust power supplier in BPA. Hydropower is absolutely, hands-down the best resource available for lots of reasons, but over-reliance on any single resource is a bad thing in terms of managing risk. For example, one big risk factor for hydropower is the volume and quality of snowpack available to feed the Columbia and Snake Rivers each year. It is best over the long
run to spread our operational and financial power supply risk over a broader portfolio of resources.

CPI is a growing utility, and we are fortunate to enjoy modest, steady growth. That growth provides us with an opportunity to integrate other types of generation into our resource portfolio over time. As Chairman Sapp told us a few minutes ago, state and national lawmakers have lots to say about the kinds of resources that are worthy of utility investment, and we’ve all seen dramatic shifts in such legislative directives over time. So with help from Beth and her team at PNGC Power we will continue to plan very carefully for when the time comes to make those critical resource investments. Until then, we continue to take advantage of the current favorable wholesale market conditions to meet our incremental load growth for as long as prudently possible.

Lastly, I also thank those of you who have joined our grassroots program, ORECA-Action. We need your help to balance the conversation in Salem and bring the voice of reason to our elected officials regarding energy issues and policies. Please spread the word to other CPI members and encourage them to participate in this important process. It’s hard to think of a more direct example of democracy in action than our ORECA-Action grassroots effort.

On behalf of the CPI board and employees, thank you again for attending today’s Annual Meeting. It is our pleasure to serve your energy needs and we look forward to doing just that now and into the future.