

Consumers Power, Inc.
2019 President's Annual Meeting Address

Welcome, everyone, to CPI's 80th Annual Meeting. I am pleased to report to you that CPI employees have once again achieved another year of working safely. Our last lost-time accident occurred more than five years ago, a remarkable accomplishment given the risks inherent in our industry. We are occasionally reminded of this fact when it is necessary for us to review reports of narrowly averted accidents – and we had a couple of close calls this past year. As great as this five year mark is, our most important safety record is to go home at the end of the day, *today*, and by disciplining ourselves to continually study and observe safe working practices we will do just that.

Costs and Rates

Several factors made it necessary for us to raise the price of electricity this year, by about \$8.45 per month on average for residential members. Thankfully, wholesale power costs were much less of a factor than usual. The Bonneville Power Administration kept its power rate in check, although a 1.5% surcharge for building financial reserves is nearly certain starting at the end of the year. Our Network Transmission rates will increase by an average of 2.5% starting next month. The expected combined impact to CPI for the coming year is an increase of about 1%.

Our other operating and capital costs have been steadily on the rise, however. The combined effect of inflation (although mild by historical standards) and import tariffs has been reflected in the prices we pay for the poles, wire, and equipment we use to maintain and improve our 3,100-mile electric system providing service to our 23,000 members. By way of example, in the past two years we have needed to rebuild or outright replace five of the 22 substation transformers we own, due to age, deterioration, or growing loads.

We must also maintain our capital rotation – return capital paid by members in past years while bringing in new capital to help fund current projects. Capital rotation falls under one of the Seven Cooperative Principles under which all cooperatives operate: Principle #3 – Members' Economic Participation. We are justifiably proud of our record in this important area, having returned more than \$20 million of patronage to our members to date.

You can find additional information regarding costs and rates in the News section of our website.

Extreme Weather

Next, I want to talk a little bit about the weather. Weather extremes in the western U.S. over the past year have sure given those of us in the electric industry plenty of work to do. Overhead electric systems are engineered to withstand considerable snow and ice loading but not trees as the heavy, wet snow that fell across Southern Oregon demonstrated back in March. That storm reached into CPI's southern and eastern border resulting in restoration costs of roughly \$350,000, none of which qualified for FEMA reimbursement.

Our neighbors to the south were not so lucky. Following our repairs CPI line crews joined other area utilities to assist Lane Electric Co-op for about two weeks as they experienced several million dollars' worth of damage to their system. Douglas Electric Co-op in the Roseburg area

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fares even worse, being devastated by widespread tree damage taking several weeks to restore power, the cost of which exceeded \$10 million.

Around this same time co-ops across the nation learned that federal grants for issues such as broadband projects and FEMA reimbursements for storm damages are now considered non-member income as a result of federal tax changes implemented at the end of 2018. In order to retain our federal income tax exemption, co-ops' non-member income cannot exceed 15% of annual revenues, which means that Lane and Douglas can potentially lose their federal tax exemption status if they receive large FEMA reimbursements. CPI and other co-ops face the same dilemma in the future.

As Chairman Sapp explained a few minutes ago, we are working with NRECA, our national trade group, to pass federal legislation known as the RURAL Act which would change the tax code to exempt federal, state, and local grants from being defined as income for co-ops. We extend a special thank you to those of you who have joined our grassroots program, ORECA-Action, to make our voice heard on important issues such as this. If you are not yet an ORECA-Action member, please pick up a brochure from a table in the display area and enroll today. It's a simple-to-use program. Your voice matters and we need your help.

At both ends of the weather extremes, CPI crews also helped provide much-needed assistance to Pacific Gas & Electric in California following last year's devastating wildfires and this year's snow storms. What they witnessed and the difference they made during the wildfire restoration effort is worth its own conversation, but I mention this now because the California wildfires also raised the importance of establishing effective utility wildfire mitigation and response plans. Utilities, regulatory agencies, and legislatures are now heavily engaged in those discussions, CPI included.

Last month our wildfire mitigation plan was put into action on multiple occasions when NOAA, the National Oceanic and Atmospheric Administration, issued several Red Flag Alerts for wildfire danger resulting from a combination of high temperatures and dry, windy conditions. During one event we were able to quickly isolate a downed power line in the Crabtree area even before fire crews arrived so they could contain a grass fire while it was relatively small. I want to make it clear that for a variety of reasons CPI's wildfire mitigation plan does *not* call for de-energizing power lines in advance of heightened wildfire conditions, unlike other plans you may have heard about in the news, nor are we required to do so. We will actively manage our plan as better information, technology, and processes become available.

Other Industry Issues

Lastly, I want to touch briefly on a couple of other industry issues we are keeping our eyes on. At the top of the list is disaster preparedness, especially for the widely publicized and expected Cascadia Subduction Zone earthquake. As public awareness of this threat grows, we are often asked, "How prepared is CPI for the Big One?" My blunt, honest answer is that we are not nearly prepared enough and practically speaking, *none of us are*. We can neither appreciate nor comprehend the terrifying force that will be unleashed in the course of a few minutes that will

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forever change the topography of the entire Pacific NW. Any structures, overhead and underground alike, which are still intact after the initial quake will be subjected to frequent, massive aftershocks. There are no construction standards or materials available today that will withstand the effect of such forces, even if we could build a modern electric grid from scratch.

Even so, we meet periodically with state and local emergency management agencies, BPA, and our neighboring utilities – co-ops, PUDs, and municipals alike – to share the latest in preparedness information. Some of the practical knowledge we've gained includes seismic supports and flexible connections in substation equipment to allow some movement without breaking during an earthquake. We took another important preparedness step when we added substantial strengthening to the support joints of our headquarters building during the 2015 – 2016 renovation project. On a related note, we were pleased to see an announcement last month that Oregon State University will receive a federal grant to study how large earthquakes will affect the western electrical grid. We are *extremely* interested in this study, I can tell you.

In terms of public policy, a few minutes ago Chairman Sapp talked about Oregon's Cap and Trade legislation considered during this year's session. Efforts across the U.S., particularly in the West, to decarbonize are changing the electric industry, even in the hydroelectric-rich Pacific NW. I've mentioned in past Annual Meetings that CPI members are among the most active solar photovoltaic adopters in the state, with no signs of slowing down. CPI members' interest in electric vehicles is growing too. Just recently Oregon announced that the state has reached the halfway point toward the goal of getting 50,000 EVs on the road by the end of 2020.

Growth in the use of emission-free energy resources will not come without its challenges. Declines in the reserve capacity of the NW transmission system and increased number of transmission constraints have reached alarming levels and is growing worse. Our next speaker, Roger Gray, will have more to say about this topic. There are a variety of options that we can consider and should adopt before we reach a crisis point, and we are encouraging state and national policy makers to do so.

Lastly, a national movement is underway for electric cooperatives to take a leading role in extending broadband communications to rural America. Many years ago CPI and Pioneer Telephone Cooperative headquartered in Philomath formed PEAK Internet to provide broadband service to our combined memberships. As we modernize our electric distribution network, we believe that opportunities now exist for our successful partnership to bring the same high-quality broadband service to CPI's unserved and underserved territory. We continue to work with Rick Petersen, CEO at PEAK, and his team to identify and analyze potential projects.

It is our privilege to serve you in this exciting time full of challenges and opportunities. I see a bright future ahead for CPI as we work to fulfill our mission to keep your lights on and the bills affordable.